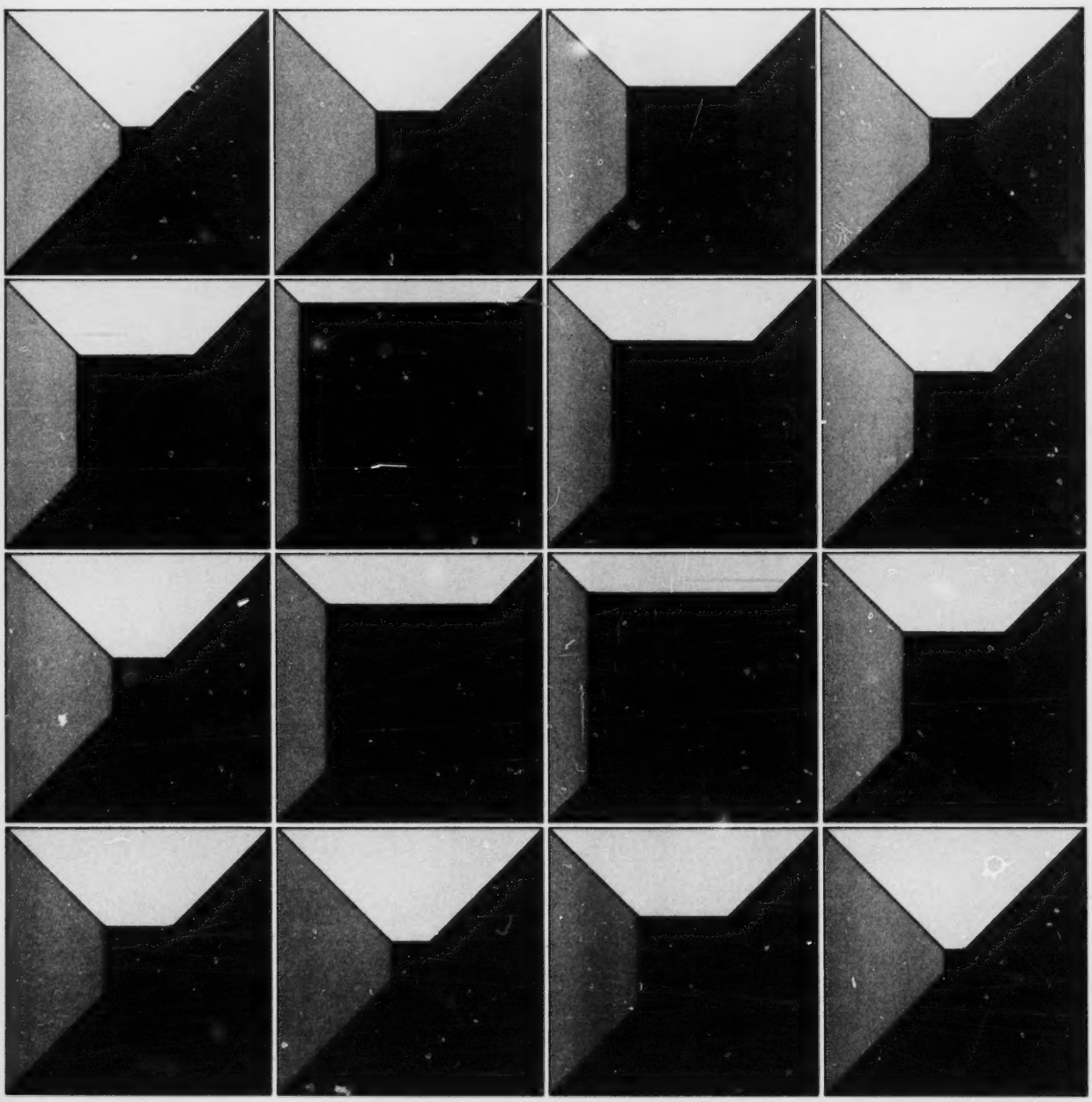
A CBO STUDY

Disability Compensation: Current Issues and Options for Change

June 1982

Congress of the United States
Congressional Budget Office



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DISABILITY COMPENSATION:
CURRENT ISSUES AND OPTIONS FOR CHANGE

The Congress of the United States
Congressional Budget Office

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PREFACE

In recent years, the Congress has focused much attention on disability compensation programs, questioning their high costs, their effectiveness, and the adequacy of program benefits. This paper, prepared at the request of the House Budget Committee, describes the major disability compensation programs and analyzes the gaps and overlaps in disability compensation, and the effects of current program provisions on the costs and adequacy of benefits and on work disincentives. The paper also presents options for changing federal disability programs, but in keeping with the Congressional Budget Office's mandate to provide objective and impartial analysis, makes no recommendations.

Dorothy M. Amey of the Human Resources and Community Development Division of the CBO prepared the paper, under the supervision of Nancy M. Gordon and Paul B. Ginsburg. The author wishes to thank a number of persons outside the CBO for their comments and suggestions, particularly Jonathan Sunshine, L. Scott Muller, William G. Johnson, Mordechai Lando, Wendell Primus, David Koitz, Joseph Humphreys, and James Rotherham. Numerous persons at the CBO contributed to the paper including Kathleen Shepherd, Stephen Chaikind, David Lewis, Paul Cullinan, Sherri Kaplan, Janice Peskin, and Thomas Buchberger. Valuable computer programming assistance was provided by Fay Jan Lim, formerly of CBO, John Engberg and Ben Steffen of the CBO, Don Suprenant of the Social Security Administration, and Nelma Keen of the National Center for Health Statistics. Francis Pierce edited the manuscript. Toni Foxx, Jill Bury, and Mary Braxton typed the many drafts and Toni Foxx and Jill Bury prepared the paper for publication.

Alice M. Rivlin
Director

June 1982

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SUMMARY

Public disability programs have been the subject of much scrutiny. In past years, concern was focused on their rapid growth and on the expanded role of the federal government. While the growth of the programs has been slowed as a result of recent legislative and administrative efforts, a number of problems remain.

Current issues focus on two contrasting problems: the high costs of disability compensation on the one hand and the adequacy of the benefits on the other. The costs of disability compensation continue to be high because of persistent problems in administering programs and because of provisions that automatically raise benefit levels. Other problems are associated with the lack of benefits for some disabled persons and high benefits for others, especially when the high benefits are the result of payments from more than one program. Work disincentives are also a major concern, particularly where benefits replace a high proportion of predisability earnings.

CURRENT DISABILITY PROGRAMS: OBJECTIVES AND CHARACTERISTICS

The disability compensation system consists of various public--federal, state, and local government--and private insurance and cash assistance programs. They include Social Security Disability Insurance (SSDI), civil service disability retirement, federal and state workers' compensation, veterans' compensation, and many private insurance programs. In addition, the federal government provides welfare payments to poor disabled persons through programs such as Supplemental Security Income (SSI) and veterans' pensions. In 1981, the major federal programs paid more than $37 billion in disability cash benefits to about 8 million disabled persons (see Summary Table 1).

Disability programs seek first to insure persons against the risks--especially income losses--of work-limiting disability impairments, and also to aid in the recovery process by providing services such as medical care and vocational rehabilitation. Cash benefits are paid to replace disabled workers' lost wages, to compensate for loss of limbs or physical capabilities, or to provide

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SUMMARY TABLE 1. CASH BENEFITS FROM FEDERAL DISABILITY COMPENSATION PROGRAMS, FISCAL YEAR 1981

Compensation Programs[a]	Payments (billions of dollars)	Primary Beneficiaries[b] (thousands)
Social Security Disability Insurance	16.9	2,840
Veterans' Compensation	6.9	2,280
Civil Service Disability Retirement	3.1	340
Supplemental Security Income (for Blind and Disabled)	4.4	2,160
Veterans' Pensions	2.4	890
Other Federal[c]	3.8	500
Total	37.5	8,000[d]

SOURCE: Appendix to the Budget of the United States Government, Fiscal Year 1983 and CBO calculations.

a. The programs listed include long-term disability compensation systems and exclude all general sick-leave programs. Payments for dependents and payments originally based on disability to persons aged 65 and over are also included, although payments to their survivors are generally excluded.

b. Numbers of beneficiaries represent average program totals during the year. Dependents and survivors are excluded.

c. Other federal programs include Black Lung Benefits, Federal Workers' Compensation, military disability retirement, and railroad disability retirement.

d. The total is less than the sum of all beneficiaries because it makes a rough allowance, based on limited information, for those receiving concurrent benefits from more than one federal program.

cash assistance for the needy disabled. While some benefits are temporary, others are awarded on a long-term basis--often for the disabled person's lifetime. When provided, medical care benefits are generally available for the duration of the disability; public funding for vocational rehabilitation services is sufficient to serve only a small proportion of the disabled population, however.

The major programs differ in their eligibility criteria, benefit formulas, and termination criteria. The most significant variation is with respect to a program's definition of disability or what constitutes a disabling condition. Definitions of disability are more restrictive in programs like SSDI and SSI than in others, so similarly impaired persons often receive different treatment when applying for benefits. To qualify for long-term payments from SSDI, for example, persons must have lasting disabilities and have suffered a reduction in functional capabilities affecting their ability to work; when such limitations no longer apply, benefits are terminated. The determination of lost capacities or inability to work is difficult, however, often leading to litigation and reversals of denied disability claims.

TRENDS IN EXPENDITURES

Cash benefit expenditures from federal disability programs grew rapidly between calendar years 1965 and 1975, but have slowed since then. Increases were most noteworthy in the SSDI program, which had an annual growth rate of 18 percent between 1965 and 1975--increasing spending from $1.6 billion to $8.4 billion. Between 1975 and 1980, however, cash benefits in SSDI grew at an average annual rate of less than 13 percent. The increases in federal expenditures were caused primarily by liberalizations of program eligibility criteria, the beginning of new disability programs for welfare recipients and black lung victims, lenient administration of the larger programs, and increased benefit levels. The subsequent slowing of growth resulted primarily from tighter administration of public programs, the end of the startup period for new programs, and the completion of adjustments to higher benefit levels and eased eligibility rules.

Growth could slow further in the short term because of recent legislation designed to accomplish this goal. New laws designed primarily to contain disability expenditures in the SSDI, SSI, and Black Lung Benefits programs were enacted in 1977, 1980, and 1981. On the other hand, the possible addition of new programs to

compensate other occupational-disease victims along with the aging of the population, high unemployment rates, and reversals of denied disability cases may prevent further declines in the real level of expenditures.

LACK OF COVERAGE AND BENEFITS

Although a few programs like SSDI potentially cover almost all workers for total disability, many persons are prevented from receiving benefits because of special eligibility requirements, such as length and recency of covered employment. For example, about one-fifth of those in current civilian employment lack eligibility status for SSDI and other public disability benefits, primarily because they have not worked in covered employment, or have not worked long enough or recently enough. A significant portion of this group consists of new entrants and women with little attachment to the labor force.

Some disabled persons receive retirement benefits or public assistance rather than benefits based on disability. While three-fourths of persons claiming to be severely disabled when surveyed in 1978 reported receiving some type of public transfer payments, less than half reported receipt of cash benefits based on their disabilities. According to survey data, disabled persons not receiving disability benefits are mostly female; they are also more likely to have higher family incomes than beneficiaries, yet about one-fourth of persons claiming to be the most disabled report total family incomes below poverty levels, whether or not they receive any public cash benefits.

INCOME REPLACEMENT AND BENEFIT AMOUNTS

Disability payments replace widely varying amounts of beneficiaries' earnings before disability, even when they are based on previous earnings. For example, state workers' compensation programs generally pay at a rate of two-thirds of weekly wages for total disability, as long as the amount does not exceed preset maximums, which vary greatly by state. Benefits in other programs like SSDI reflect a portion of average career earnings. Benefits such as veterans' compensation, on the other hand, are not based on previous earnings but rather on lost earnings capacities estimated by the severity of the disability.

Concern over the adequacy of disability benefits focuses on two problems--very low and very high replacement rates. Low replacement rates are often defined as less than half of previous take-home pay. Benefits above predisability take-home pay certainly represent a high replacement rate, since this amount was the disabled person's previous contribution to family income, and benefits are generally tax-free. Moreover, disabled persons usually do not incur additional work-related expenses that would further reduce predisability spendable income, although their out-of-pocket medical expenses may be higher. On balance, however, adequate replacement levels are probably lower than predisability take-home pay.

Low earnings replacements can occur for several reasons. For example, benefits based on average career earnings that are low compared with earnings immediately before the onset of the disability result in low replacement rates. Another cause is payments, such as those from workers' compensation, that are based on a schedule of impairments for partial disabilities.

Disabled workers' benefits are usually not high relative to previous take-home pay, as measured by 60 to 70 percent of gross earnings in the year before disability. For example, survey analyses indicate that about 73 percent of disability beneficiaries have replacement rates of 60 percent or less.[1] Almost forty percent of disabled beneficiaries replace less than 35 percent of their previous earnings, and 31 percent of those claiming to be "severely" disabled have replacement rates this low (see Summary Table 2).[2]

On the other hand, about 12 percent of beneficiaries--mostly those with low predisability earnings--report benefits replacing more than 100 percent of previous earnings. In future years, however, fewer beneficiaries will have replacement rates above 100 percent because of recent legislative changes affecting SSDI benefit levels.[3]

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1. To the extent that survey-reported incomes do not accurately reflect actual incomes, the distributions of actual replacement rates could vary from those given.

2. In addition to beneficiaries with low replacement rates, about 25 percent of severely disabled survey respondents report receiving no transfer payments.

3. In 1977, 1980, and 1981, changes in SSDI benefit levels were enacted for newly entitled beneficiaries. The new benefits (continued)

SUMMARY TABLE 2. PERCENTAGE DISTRIBUTION OF 1977 REPORTED EARNINGS REPLACEMENT RATES FOR SURVEY RESPONDENTS DISABLED BETWEEN 1972 AND 1976, BY RECIPIENT CATEGORY

Recipient Category	Replacement Rates[a]				
	0	.01-.34	.35-.60	.61-1.0	Greater than 1.0
All Disabled Persons	69	12	11	5	3
Disabled Beneficiaries	--	38	35	15	12
Severely Disabled Persons[b]	50	15	20	8	7
Severely Disabled Beneficiaries[b]	--	31	39	16	14

SOURCE: CBO tabulations of the Social Security Administration's 1978 Disability Survey data.

a. The replacement rate is defined as the ratio of disability cash benefits to wage-indexed predisability gross earnings. Earnings in the year before the occurrence of disability were used in the computation and were derived from responses as to usual weekly earnings before work-limiting disability.

b. Severely disabled persons were identified in the survey data as those persons claiming to be unable to work at all or unable to work regularly because of a chronic health problem.

There are three main causes of high earnings replacement rates. First, additional benefits for dependents--sometimes fixed amounts but usually a percentage of the beneficiary's payment--can

3. (continued)
provide lower replacement rates for many low earners, younger disabled workers, disabled workers with dependents, and certain recipients of public benefits from more than one program. Beneficiaries on the rolls before the new laws became effective are not affected.

make benefits high relative to the disabled person's previous earnings. Second, benefits based on the severity of the impairment, rather than on previous earnings, can cause high replacement rates, especially for low earners. Third, if benefits are received from more than one program (without offsetting reductions), replacement rates can again be high.

A combination of survey and administrative data suggests that about 15 percent of federal disability beneficiaries receive benefits from more than one program, including significant proportions of SSDI and veterans' program beneficiaries. A provision of the Omnibus Budget Reconciliation Act of 1981 that places a cap on combined benefits applies to some new SSDI recipients, but will not significantly lower the percentage of disabled persons with high replacement rates in the near future, mainly because those already on the rolls and recipients of veterans' compensation were not affected by the new law.

WORK DISINCENTIVES

Common to all disability programs is the problem of providing adequate benefits without creating work disincentives. In fact, work disincentives may be inherent in any disability program that provides benefits only if the beneficiary's earnings are less than a specified amount, or that uses the criterion of whether or not a person is working as a major determinant of whether that person is able to work.

Specifically, disabled persons who can work are discouraged from doing so if benefits are cut when earnings increase, especially if there is fear that earnings may not continue or that medical coverage will also be lost. Similarly, high benefits relative to past or potential earnings can diminish the attractiveness of work relative to leisure activities. Although other factors--such as the severity of the disability, the availability of jobs, or a person's age and other family income--may influence decisions, the greater the replacement of earnings, the less attractive work becomes.

OPTIONS FOR CHANGE

The Congress could follow two basic approaches in dealing with the issues raised in this study. First, it could alter and retarget disability coverage to ensure that those most in need of

help would be served. Second, it could reduce benefit levels of certain federal programs with the aim of cutting outlays in a time of budget stringency, promoting similarity of treatment, and increasing work incentives.

Altering and Retargeting Program Coverage

This approach would address two often conflicting policy objectives: reduction of public disability expenditures and expansion of total disability coverage. The former objective could be achieved by retargeting and limiting program eligibility to those most disabled or eliminating future awards from certain programs that duplicate services provided by other major programs. The latter objective could be achieved by extending Social Security coverage for disability to all workers.

One way to target benefits would be to eliminate payments to persons with less severe disabilities. For example, approximately 1.3 million veterans now receive veterans' compensation benefits based on disability ratings of 20 percent or less. All of these veterans are considered employable, and it is doubtful that many suffer reductions in their earnings as a result of their low-rated disabilities. Maintaining their eligibility for medical benefits, but ending periodic cash payments to these persons, would save $1.2 billion in 1983 federal expenditures (see Summary Table 3). Opponents of this approach view the periodic benefits as indemnity payments owed to veterans disabled to any degree while serving in the armed forces.

Phasing out the veterans' pension program and consolidating coverage under SSI would end the current duplication between the two programs. Under this option, veterans' pensions would be retained by those currently receiving them; in 1983, needy veterans or survivors of wartime veterans would apply for SSI instead of pensions. Applicants who were not aged or disabled according to SSI definitions would be denied federal cash benefits; however, some might be eligible for Aid to Families with Dependent Children (AFDC) or other local government welfare benefits. Savings to the federal government would be $100 million in 1983 but would accumulate to $6.5 billion in 1983-1987, and could be substantially larger if some or all current beneficiaries were also affected.

A third option would expand disability coverage to all workers. About 10 percent of the working population would be affected by universal Social Security disability coverage,

SUMMARY TABLE 3. SUMMARY OF THE IMPACT OF OPTIONS TO CHANGE DISABILITY PROGRAMS ON FEDERAL EXPENDITURES IN FISCAL YEARS 1983-1987 (In billions of dollars)

Option	Federal Programs Affected	Savings 1983	Savings 1983-1987
ALTER COVERAGE:			
Restrict Entitlement to Veterans' Compensation	Veterans' Compensation	1.2	7.4
Phase In a Consolidation of SSI and Veterans' Pensions	SSI, Veterans' Pensions	0.1	6.5
Expand Coverage of SSDI	SSDI, Civil Service	1.1[a]	9.0[a]
MODIFY BENEFITS:			
Reduce COLAs	All indexed to CPI	0.5	17.0
Amend Workers' Compensation Benefit Formula	FECA	0.05	0.2
Limit Combined Payments	SSDI, Veterans' Compensation	0.01	0.2
Tax Benefits	All, except means-tested	1.8	14.0
Raise SSI Payment Levels[b]	SSI, Medicaid, Food Stamps	-1.3	-7.0

a. Estimated savings for this proposal represent increased revenues, net of costs, from Social Security taxes.

b. A minus sign (-) indicates increased costs rather than savings from the proposal.

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including about six million federal, state, and local government employees. Those not already covered by SSDI would contribute to the program and, over time, become insured under Social Security against income loss from total disability. Since eligibility for benefits requires meeting other criteria, such as length of coverage and recency of work, not all newly covered persons would be immediately eligible. If enacted in 1983, this proposal would increase 1985 outlays by less than $50 million and revenues by $2 billion.

Modifying Benefit Levels

Options that would reduce disability expenditures include:

- Reducing cost-of-living adjustments over the next five years to a proportion--for example, two-thirds--of the current level in order to restore the level of benefits relative to wages that existed in the middle 1970s;

- Limiting a federal worker's compensation award to 80 percent of previous after-tax income so that benefits would replace less than previous take-home pay and thereby increase work incentives for many temporarily disabled workers;

- Limiting combined payments from SSDI and veterans' compensation--that is, broadening the 1981 megacap provision and thereby integrating the two federal programs that have the most overlap.

Together these proposals would save about $600 million in 1983 and about $17.4 billion through 1987. They would be criticized by some, however, as providing inadequate compensation to certain beneficiaries--disabled veterans or federal workers with dependents, for example.

Alternatively, since the general tax-free status of disability benefits reduces revenues and acts as a work disincentive, some or all of them could be included in a disabled person's gross taxable income. By taxing half of disability benefits, for example, about $1.8 billion would be added to federal revenues in 1983. Taxing disability benefits rather than reducing benefits across the board would target benefits on those most in need. On the other hand, some disabled persons or their spouses might reduce their work effort in order to lower their taxable incomes.

Other Options

Several other options could be considered separately or in combination with those described above.

To improve the adequacy of benefits to needy disabled persons, SSI payment levels for individuals could be raised. In July 1982, the federal SSI guarantees represent about 73 percent of the national poverty level for individuals and about 82 percent of the poverty standard for couples. Raising the federal SSI guarantee for individuals to 80 percent of the poverty level would treat these two groups similarly and would increase the incomes of those most in need. In 1983, this option would increase federal SSI payments by about $1.3 billion. Increased Medicaid costs would be roughly offset by food stamp savings if neither of those programs was changed. Some would oppose this measure as being too costly in a time of budget stringency; others would favor a larger increase such as raising the federal SSI guarantee for both individuals and couples to 100 percent of the poverty line.

Alternatively, stricter definitions of disability could be used in federal programs to target benefits on those most disabled. Two general approaches have been suggested:

- Using SSDI definitions of total disability in all federal disability retirement programs, and
- Imposing even stricter requirements in SSDI or SSI programs.

One drawback to both proposals is that elderly disabled persons who may actually be unable to work would be affected disproportionately if age or the inability to do one's previous work were not taken into account in disability determinations.

In addition to the options described above, current rehabilitation practices could be changed to encourage more disabled persons to work. For example, state-federal vocational rehabilitation programs could place greater emphasis on providing the disabled with skills that are in demand, and on early job placement. More services could also be made available to or targeted on older, experienced workers, which would provide them with continued incentives to work.

CHAPTER I. INTRODUCTION

Federal disability programs are undergoing intense scrutiny. Questions have been raised as to their costs, their effectiveness, and the adequacy of their benefits. Concern has also been expressed as to their effects on disabled persons' incentives to work.

CURRENT COMPENSATION PROGRAMS

Disability compensation programs in America are a varied collection of federal, state, local government, and private insurance programs. Veterans' compensation and military disability retirement programs pay cash benefits for military-service-connected disabilities. Social Security Disability Insurance (SSDI), and state and federal disability retirement programs compensate for totally disabling impairments, while federal and state workers' compensation programs compensate for both partial and total disabilities from work-caused impairments. The Supplemental Security Income (SSI) and veterans' pension programs are among those that pay means-tested benefits to disabled persons. Other public and private programs supplement this coverage, each of them primarily serving a specific group of persons such as railroad workers, black lung victims, or company employees.[1]

Federal programs pay disability benefits to more than 11 million persons--the disabled and their dependents. The largest of these, SSDI, pays cash benefits to almost 2.8 million disabled workers and 1.7 million dependents. In fiscal year 1981, the major federal programs spent over $37 billion in long-term

1. The General Accounting Office has determined that about 4,900 federal, state, and local programs include disability benefits and that 45 of these programs are administered by the federal government. See U.S. General Accounting Office, Report to the Chairman, Committee on Finance, U.S. Senate: Limits on Receipt of Multiple Disability Benefits Could Save Millions, HRD-81-127 (July 1981).

disability cash benefits.[2] The SSDI program accounted for $16.9 billion of these payments, and veterans' programs paid $9.3 billion to 3.2 million veterans.

THE ISSUES

The main concerns about disability compensation include:

- the high costs of disability cash benefits and the federal government's expanding role in providing disability compensation;
- the availability, adequacy, and equity of benefits within and across disability programs;
- the restrictiveness or leniency of disability determinations and eligibility for benefits; and
- work disincentives associated with current program provisions such as high earnings replacements.

The costs of cash benefits to disabled persons and their dependents continue to increase, even though the rapid rates of growth in numbers of beneficiaries and benefit levels of past years--particularly 1965 to 1975--have been slowed. Future expenditures in public and private programs will be affected by the impact of recent federal legislation and any changes in the federal government's role in disability compensation. Whether the recent laws designed to curb expenditures in SSDI, SSI, civil service, and black lung benefits will be sufficient to overcome other forces that will increase costs is also uncertain.

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2. Based on state and local governments' share of disability expenditures (including state workers' compensation payments) in 1977, their payments in 1981 are estimated to be almost $10 billion; private-sector expenditures were probably $8-$9 billion. See Jonathan Sunshine, "Disability Payments Stabilizing After Era of Accelerating Growth," Monthly Labor Review (May 1981), pp. 17-20. Approximately one million additional persons receive long-term cash benefits from state or local government and private programs.

The role of the federal government in providing disability compensation has been constantly changing. These changes include the portion of the federal budget set aside for disability expenditures. For example, cash disability benefits from major federal programs made up 3.9 percent of calendar year 1970 federal outlays, but 5.6 percent of federal outlays in calendar year 1980. Equally important, perhaps, is how the federal government allocates scarce resources or whether it should compensate for certain types of disabilities--for example, less severe or partial disabilities--or provide special benefits for particular work-caused illnesses such as black lung, brown lung, or other occupational diseases. A related concern is whether state workers' compensation programs are carrying their full share of compensation for work-caused impairments. Some are concerned about the complexity of federal programs and whether disabled persons would be more effectively served by a few federal programs instead of the variety and mix of current programs.

In the current disability system, similarly disabled individuals often receive quite different treatment. These differences result primarily from the great variation in program objectives and administrative determinations of disability. Moreover, the lack of coordination or integration of disability programs allows some disabled persons to receive high cumulative benefits from more than one program, while compensation remains unavailable to others. Knowledge of the extent of overlapping benefits and the lack of disability coverage is needed to help correct such problems.

The adequacy of compensation for those most disabled or severely impaired is also a major concern as new program policies are being considered in the Congress. Recent legislative proposals would amend provisions in the federal workers' compensation program or create a new program for occupational disease victims, for example. Recent changes in Social Security disability programs have caused a decline in the number of beneficiaries in those programs; some analysts are concerned about the effectiveness of the new administrative provisions, however. At the same time, few changes have been made within other federal disability programs that have less restrictive eligibility criteria.

During the last decade, rapid growth in the numbers of beneficiaries as well as declines in the proportion of disabled beneficiaries recovering and returning to work coincided with dramatic increases in the benefit levels of public programs. This prompted many analysts to link high benefits or high earnings-replacement

levels with work disincentives. Although work disincentives may be inherent in any disability compensation program--because any source of income tends to encourage a reduction in work effort--questions were raised as to whether program beneficiaries were overly encouraged not to work when they were receiving disability benefits that were close to or exceeded their previous earnings or take-home pay.

The aforementioned problems are interrelated. For example, the existence of high replacement rates is due in part to the overlapping benefits of nonintegrated programs. Such duplicative benefits cause increased program expenditures and may discourage some disabled persons from working. At the same time, program provisions, such as vocational rehabilitation or trial work periods, meant to induce work effort among recovering beneficiaries, can be undermined by very high earnings replacements.

PLAN OF THE PAPER

This study examines gaps and overlaps in disability compensation for working-age adults and the effects of current disability expenditures and program provisions on work disincentives. Chapter II describes the major disability programs and their coverage. In Chapter III the issues of future disability costs, lack of disability compensation, high benefits relative to previous income levels, receipt of benefits from more than one program, and work disincentives are analyzed. Policy options to expand program coverage, eliminate duplicative benefits, and reduce disability payments to certain program beneficiaries are considered in Chapter IV.

CHAPTER II. CURRENT DISABILITY PROGRAMS AND DISABLED BENEFICIARIES

Although numerous programs pay long-term cash disability benefits, a few federal and state government programs provide the bulk of such payments. These major programs are Social Security Disability Insurance, veterans' compensation and veterans' pensions, civil service retirement, Supplemental Security Income, and state workers' compensation programs (see Table 1). The Social Security Disability Insurance (SSDI) program has the largest potential coverage of workers--90 percent of the nation's work force. Workers who are not covered by SSDI are often covered by another federal disability program or by a state or local program. State workers' compensation programs, while differing from state to state, cover about 90 percent of the working population for both short- and long-term work-related disabilities.

To receive benefits, however, other eligibility conditions generally must be met. For example, a certain number of years of employment or service may be required, and a particular definition of disability must be met in order to qualify for benefits. Consequently, a much lower percentage of persons are actually eligible to receive benefits, should they become disabled, than suggested by the coverage statistics.

This chapter describes current disability coverage and cost, as well as the demographic characteristics of recipients. It describes major programs, their objectives, and how they operate and interact within the total disability compensation system. Appendix A contains brief summaries of federal disability compensation programs and Appendix B describes the basic provisions of private programs.

OBJECTIVES OF DISABILITY PROGRAMS

The major disability programs have similar objectives. Each program functions to provide replacement of lost wages, cash assistance for the needy disabled, or indemnity payments for loss of limbs or other impairments. These objectives sometimes overlap, however, since many social insurance programs have progressive benefit formulas that provide higher earnings replacement to

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TABLE 1. CASH BENEFITS FROM MAJOR DISABILITY COMPENSATION PROGRAMS, FISCAL YEAR 1981

Compensation Programs[a]	Payments (billions of dollars)	Primary Beneficiaries[b] (thousands)
Social Security Disability Insurance	16.9	2,840
Veterans' Compensation	6.9	2,280
Civil Service Disability Retirement	3.1	340
Supplemental Security Income (for Blind and Disabled)	4.4	2,160
Veterans' Pensions	2.4	890
State Workers' Compensation[c]	7.8	1,800

SOURCES: Appendix to the Budget of the United States Government, Fiscal Year 1983, unpublished agency data, and Social Security Bulletin (February 1982).

a. Programs listed include mainly long-term disability compensation systems and exclude all general sick-leave programs. Disability payments for dependents and to persons age 65 and over are also included, although payments to survivors are excluded.

b. Numbers of beneficiaries represent average program totals during the year but exclude dependents and survivors.

c. State workers' compensation is estimated from the 1979 totals published in the Social Security Bulletin, less federal workers' compensation benefits (including Black Lung Benefits administered by the Social Security Administration) and unpublished totals for 1980. The number of beneficiaries is approximate and based on unpublished data. Cash benefits were separated from medical and death payments by methodology employed in Dan Price, "Workers' Compensation Programs in the 1970s," Social Security Bulletin (May 1979).

low-wage workers and thus contain an element of welfare. Also, workers' compensation programs often provide income maintenance similar to that of SSDI for total disabilities.

Despite their similar objectives, disability programs differ in their underlying concepts. Workers' compensation is designed as no-fault insurance for the employer against the risk of work-caused disabilities and resulting losses of income and productivity. Workers' compensation programs reflect the concept that employers are responsible in part for injuries and illnesses employees incur while on the job, and hence are obligated to insure their employees, although the federal and state governments may assist in meeting these obligations at times. Social insurance programs like SSDI and civil service disability retirement allow the worker and employer to insure against the risk of impairments, not necessarily work-caused, but so disabling that the worker cannot perform his usual activities, including earning a living. When no insurance against the loss of income is available, welfare benefits to disabled persons are meant to provide a safety net.

Each program has the objective of providing adequate compensation for those believed unable to provide adequately for themselves due to work disabilities.[1] The provision of cash benefits is usually made for the length of the disability, often resulting in lifetime benefits. Some programs have special requirements designed to terminate benefits upon medical or functional recovery, and to combat work disincentives, so that those who no longer need cash benefits will not receive them.

Disability programs also provide benefits other than cash payments, such as hospital and medical care and vocational rehabilitation services. Disabled SSDI beneficiaries are eligible for Medicare benefits after two years, and recipients of Supplemental Security Income are generally eligible for Medicaid benefits.

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1. For discussions of the use of work capability as a means for defining those eligible for benefits, see Monroe Berkowitz, "Social Policy Research and the Disabled: The Main Issues," Social Security and Disability: Issues in Policy Research (Geneva: International Social Security Association, 1981), pp. 1-22; and Saad Z. Nagi, "The Concept and Measurement of Disability," in Edward Berkowitz, ed., Disability Policies and Government Programs (Praeger Publishers, 1979), pp. 1-15.

DESCRIPTIONS OF MAJOR PROGRAMS

All disability compensation programs employ eligibility criteria, benefit payment formulas, and payment termination criteria. Eligibility criteria include the program's definition of disability, as well as requirements for employment and length of coverage or participation. Benefit payment formulas specify exactly what dollar amounts are due to those satisfying certain criteria. Because some persons are eligible for benefits from two or more programs, some programs have provisions for reducing payments when other program benefits are received. Finally, each program or pension plan has provisions for terminating benefits when a beneficiary is no longer disabled or no longer eligible for continued payments.

The programs described in this section are:

- Social Security Disability Insurance (SSDI),
- veterans' service-connected disability compensation,
- civil service disability retirement,
- Black Lung Benefits,
- Supplemental Security Income (SSI),
- veterans' non-service-connected disability pensions, and
- state workers' compensation programs.

Recent developments in the basic program provisions relevant to current issues are also discussed below.

Social Security Disability Insurance (SSDI)

Enacted in 1956, the disability insurance part of Social Security operates in much the same manner as the old-age and survivors' insurance program (OASI).[2] It pays wage-related benefits

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2. Benefits are available from the OASI trust fund to disabled survivors or children of retired and deceased workers who (continued)

to an insured worker under age 65 to make up for potential earnings lost when the worker became totally disabled. The program is financed through a federally administered trust fund, for which revenues are collected via a tax on covered employment. The program currently covers about 90 percent of the working population. The SSDI program paid $16.9 billion in cash benefits to 2.9 million disabled workers and 1.8 million dependents of disabled workers in fiscal year 1981.

Eligibility. In SSDI, disability is defined as the inability to engage in any substantial gainful activity because of a medically determined physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months. Moreover, the impairment must prevent the disabled person from doing his previous work and--considering his age, education, and work experience--from engaging in any other kind of "substantial gainful activity" that exists in the national economy. Any work providing monthly income above approximately $300 can be considered substantial gainful activity. Such work need not exist in the immediate area where the disabled person lives, and it is not necessary that a specific job exist for him or that he would be hired if he applied for work. Hence, a 55-year-old person with a back injury who has little education and only previous work experience as a laborer or construction worker may be considered unable to work, whereas a 55-year-old with the same impairment and with similar work experience but more education and work skills may not be considered disabled.

Unlike the retirement program, SSDI requires that in addition to being fully insured--having either 40 quarters of coverage or one quarter of coverage for each year after 1950 or age 21 if later--the worker must have worked at least 20 out of the 40 quarters before disability in covered employment if he is age 31 or older.[3] Initial eligibility for benefits cannot begin until five months after the onset of a disability.

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2. (continued)
meet age and other eligibility criteria. Benefits from the OASI trust fund to 527,000 disabled persons were $1.4 billion in calendar year 1981.

3. In 1982, a worker can earn a quarter of coverage, up to a total of four in a calendar year, for each $340 of annual earnings in covered employment. Disability claimants age
(continued)

Benefit Formula. Monthly benefits are computed from average indexed monthly earnings (AIME) over covered employment for the years after age 21 or 1950, whichever is later. Depending on age, a maximum of five years of low earnings may be eliminated from this computation. The benefit formula is progressive in that low earners receive higher amounts relative to their covered earnings. Benefits are automatically increased each year through cost-of-living adjustments. For many newly entitled disabled workers, recent laws lowered the overall maximum family benefit level (Public Law 96-265) and limited the amount of combined benefits (Public Law 97-35) received from SSDI and other public programs, except veterans' benefits, means-tested benefits, and public program benefits based on covered employment.

Termination of Benefits. Eligibility ends with recovery, an extended period of substantially gainful activity, or attainment of age 65, when eligibility for retirement benefits begins. The administration of the SSDI program requires a continuous disability investigation (CDI) of a portion of all cases and a three-year periodic review of nonpermanent disability cases to determine whether medical improvement or return to substantial gainful activity has occurred, prompting termination of benefits. Recently enacted legislation (Public Law 96-265) extended the period of automatic reentitlement to benefits by 12 months, while a disabled recipient tries to return to work.

Veterans' Service-Connected Disability Compensation

Veterans' compensation is the primary disability program compensating veterans for impairments or illnesses contracted while in service. In fiscal year 1981, general revenues provided $6.9 billion for benefits to almost 2.3 million veterans and $1.5 billion for benefits to 356,500 survivors.

Eligibility. Eligible veterans must be determined to have service-connected disabilities and must have been discharged from

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3. (continued)
24-30 must be covered for half of the quarters elapsed after age 21, but at least six quarters of coverage are required. A worker under age 24 must have a minimum of six quarters of coverage out of the preceding twelve. In 1972, the 20 out of 40 quarters of coverage requirement for blind individuals was dropped.

service under other than dishonorable conditions. Disabilities are rated along a scale relating the degree of disability to an associated loss in earnings capacity. The scale ranges from a 10 percent disability rating to a 100 percent rating, or total disability.[4]

Benefit Formula. Benefits are provided according to the severity or percent of total disability. Additional dependents' allowances are also paid to veterans rated 30 percent or more disabled, prorated according to the percentage of disability. Additional compensation is provided veterans requiring special aid and attendance.

Compensation payments are preset amounts, increased each year via legislation, and in 1982 ranged from $58 a month for a veteran with no dependents, no special allowances, and a 10 percent rating, to $1,130 a month for a veteran with no dependents and a 100 percent rating. In addition, a disabled veteran with a 60 to 90 percent disability rating may receive compensation at the 100-percent level if it is determined that the veteran is unemployable. Multiple injuries or disabilities can increase the amount of the benefit; together with special aid and attendance needs, they can increase benefits for total disabilities to more than $3,200 per month.

Termination of Benefits. Once determined to be eligible for benefits, a totally disabled veteran is not required to prove continued eligibility. Those with lower disability ratings--for example, 10 or 20 percent, may lose disability benefits if they are found to have recovered. The program has no work test since benefits are provided without regard to actual earnings.

Civil Service Disability Retirement

The civil service disability program (CS) provides primary disability coverage for most federal civilian employees. Currently, about 2.7 million employees regularly contribute 7 percent of their salaries to the fund out of which retirement and

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4. A tropical disease, and resulting disorders, developing within one year of leaving active service could get a 10 percent disability rating, whereas the amputation or loss of two or more extremeties would result in a higher, perhaps 100 percent, disability rating.

disability payments are made.[5] Employee contributions are supplemented by employer-agency contributions, certain off-budget agency receipts, and general revenues. In 1981, the program paid $3.1 billion in disability benefits to about 343,000 persons--about 20 percent of all CS retirees.

Eligibility. Disabled employees are eligible for disability benefits if they have completed at least five years of civilian employment under the retirement system. Disability benefits can be paid to those federal employees who are medically determined to be totally disabled for useful and efficient service in the positions they previously occupied or similar positions.[6]

Benefit Formula. Benefit payments are based on the "retiree's" length of government service and predisability average salary for the three consecutive years of highest earnings. The basic annuity may not exceed 80 percent of this "high-3" salary, but cannot be less than the lesser of 40 percent of this average salary or an annuity based on length of service extended to age 60.

The Omnibus Reconciliation Act of 1981 (Public Law 97-35) restricts the total amount of benefits paid to recipients of both SSDI and CS. The law limits the amount of combined benefits to 80 percent of average predisability earnings. It also eliminates benefit eligibility of certain military retirees and limits cost-of-living adjustments of benefits to once rather than twice per year.

Termination of Benefits. Benefits cease if before reaching age 60 the disabled person recovers or has wages for two consecutive years exceeding 80 percent of the current compensation level for the position occupied immediately before retirement.

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5. Certain federal employees contribute different percentages of their salaries. For example, Congressional staff and workers on hazardous duty contribute 7.5 percent of pay; the contribution rate for Members of Congress is 8 percent of pay.

6. Recent legislation (P.L. 96-499) requires that the federal employee be unable to perform in another agency job requiring skills at the same grade or salary level. This provision, however, excludes postal workers since they are required only to be unable to perform in a similar position of the same occupation.

Black Lung Program

The Black Lung program was established by the Federal Coal Mine Health and Safety Act of 1969 and is designed to compensate coal miners disabled by pneumoconiosis--black lung disease. Generally, claims filed between 1970 and 1973 are paid under the Part B portion of the program, and claims filed or payable after 1973 are paid under Part C. The federally-financed Part B portion of the program is administered by the Social Security Administration and paid from general revenues. The Part C portion of the program is administered by the Department of Labor. Benefits awarded to disabled miners under Part C are paid by the mine operator responsible for the disability; if no responsible mine operator can be found, or where mine employment terminated before 1970, Part C benefits are financed through a coal tonnage tax on coal sold by producers after March 1978. In 1981, about 480,000 beneficiaries received Black Lung payments amounting to $1.8 billion.

Eligibility/Termination Criteria. A living miner, medically determined to be disabled by black lung disease and unable to perform his job or work comparable to mining, is eligible for Black Lung benefits. Survivors of a miner determined to have suffered from pneumoconiosis are also eligible for benefits. Benefits are terminated if the miner recovers or is able to do substantial work again. Benefits to survivors or dependents end upon marriage, lack of dependency status, or receipt of earnings beyond specified amounts.

Benefit Formulas. The basic benefit to a disabled coal miner equals 37.5 percent of the monthly pay rate for federal employees in Grade GS-2, Step 1, or $293.20 per month at present. A miner's basic benefit is increased by 50 percent for one dependent, 75 percent for two dependents, and 100 percent for three or more dependents. Benefits are reduced by the amount of benefits received from state disability insurance or workers' compensation programs for black lung disease. Both Part B and Part C benefits are reduced one dollar for every two dollars of monthly earnings in excess of $500 per month ($370 for workers under age 65).

Recent developments in Black Lung Benefits have included changes in the program's eligibility criteria and financing. The Black Lung Revenue Act of 1981 (Public Law 97-119) imposed stricter medical requirements for eligibility for Black Lung awards, eliminating the "presumption of disability" provisions of the

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program. Before January 1982, if the miner had sustained a disabling chronic lung disorder and had worked 15 or more years in the coal mines, benefit eligibility could be presumed.

The financing of Part-C Black Lung Benefits became an issue in 1981 because large deficits were accruing in the Black Lung Trust Fund. Public Law 97-119 mandated a 100 percent increase in the coal tonnage tax to help pay for trust fund expenses, until the trust fund becomes solvent.

Supplemental Security Income (SSI)

Enacted as part of the 1972 Amendments to the Social Security Act, SSI payments are made to needy aged, blind, and disabled persons without regard to their previous earnings or employment. The program is financed from general revenues of the federal government. Program benefits began in 1974 and superseded federal matching funds to the following state programs: Old Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled (APTD). In fiscal year 1981, almost 2.2 million blind and disabled persons were paid $4.4 billion in benefits. Additional funds are available to many blind or disabled individuals and couples under state supplements to the federal SSI program. These supplementary payments, administered by either the state or the Social Security Administration, totaled $1.2 billion in 1981.

Eligibility/Termination Criteria. The definition of disability in the SSI program is the same as that used in the SSDI program, except that in addition, SSI eligibility extends to disabled children under the age of 18. About 36 percent of disabled SSI recipients concurrently receive SSDI, but SSI benefits are offset for receipt of SSDI payments. Other SSI recipients may, however, lack SSDI coverage, either because of recency-of-work requirements or lack of quarters of coverage under Social Security, and are thus only entitled to SSI. Persons transferred from a state APTD program to SSI who were eligible previous to July 1973 are considered disabled as long as they meet the state's 1972 definition of disability.

SSI applicants must also meet strict tests of need or of income inadequacy, on a monthly basis. Countable resources or assets, excluding the home and other reasonable valued property such as a car, may not exceed $1,500 for an individual or $2,250 for a couple. Once eligible for benefits, blind and disabled adults under age 65 must be referred to state vocational rehabilitation centers and must accept the services offered.

Benefit Formula. SSI benefits are determined by living arrangements, marital status, and countable income against a basic payment level. The current basic benefit for an eligible individual living independently with no countable income is $264.70 per month; the basic benefit for an eligible couple, living independently with no countable income, is $397 per month. Other earned or unearned income beyond specified deductions is subtracted from the basic benefit amount. To encourage disabled persons to work, SSI program provisions allow certain deductions from countable income. The first $20 of monthly unearned or earned income and $65 plus one-half of any remaining earned income are deductible as are extraordinary work expenses caused by the disability. Recently, work-expense deductions were liberalized and more extensive work activities were permitted without elimination of disability status, by the Disability Amendments of 1980 (Public Law 96-265).

Veterans' Non-Service-Connected Disability Pensions

Needy disabled veterans of a war period who were honorably discharged, or survivors of wartime veterans, are provided cash benefits via the current veterans' pension program. A veteran's disability need not be service-connected. The program is financed through general revenues. In fiscal year 1981, the veterans' pension program paid $2.4 billion in cash benefits to about 900,000 veterans. Survivor benefits are also paid under veterans' pensions. In 1981, $1.4 billion in cash benefits were paid to 1.1 million survivors.

Eligibility/Termination Criteria. To be eligible, a veteran must be age 65 or older or be permanently and totally disabled, and have 90 days or more of wartime service, unless discharged sooner for a service-connected disability. For eligibility, annual income must be below $4,960 for a single veteran and $6,499 for a veteran with dependents. Annual qualification is required for benefits.

Benefit Formula. The amount of the veterans' pension benefit is determined by a veteran's war period, current income, and number of dependents. Specific benefit levels were set in laws governing the program for veterans of particular war periods before 1979. Under the current or "new" program, all benefits are based on need, and the basic benefit amount is reduced according to the amount of earned and unearned income; for example, the benefit is reduced dollar for dollar by the amount of Social

Security benefits. Benefits to survivors are approximately two-thirds of those for veterans. An additional allowance of $840 per year is given for each dependent in excess of one. Other allowances are provided to veterans who are housebound or who require the aid or attendance of another person.

A major change in veterans' pension benefits occurred as a result of the Veterans' and Survivors' Pension Improvement Act of 1978 (Public Law 95-588). It provided for annual automatic cost-of-living adjustments, preventing reductions in pension benefits solely attributable to cost-of-living increases in Social Security benefits. Beneficiaries who were on the rolls previous to this law are allowed to select the most favorable pension plan--that is, the one providing higher benefits.

Workers' Compensation Programs

State workers' compensation, like Federal Employees Compensation Act (FECA) benefits and Longshoremen's and Harbor Workers' Compensation Act benefits, provides no-fault insurance and cash assistance for workers disabled by injury or exposure to harmful substances while performing their jobs.[7] State workers' compensation programs are funded by employer-paid insurance generally administered by private carriers. Employer participation is compulsory in all but three states (it is elective in South Carolina, New Jersey, and Texas). About 88 percent of all private-sector wage and salary workers are covered.

Eligibility/Termination Criteria. State workers' compensation payments are made to workers disabled by work-caused impairments, although the burden of proof lies with the worker. Disabilities that range from temporary and partial to permanent and total can be the basis for compensation awards. Over the last decade, most states have added occupational diseases to their lists of compensable impairments, including black lung disease.

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7. State worker's compensation laws were enacted in 1911 in some states for workers in private industry. By 1949, all states had a program protecting workers from losses caused by work-related injuries. Worker's compensation for federal employees began as early as 1908, whereas the Longshoremen's and Harbor Workers' Compensation Act was passed in 1927 to protect maritime workers.

Cash benefits are normally available to dependents if workers die as a result of their injuries, and 12 states also pay allowances for dependents of totally disabled workers. In most states, benefits for total disabilities are provided as long as the disability continues, although temporary total disability compensation can be limited to 200 or 300 weeks.

Benefit Formulas. Cash compensation can be made either as an indemnity payment for loss of limbs, eyes, or hearing, or as periodic payments meant to replace lost wages, or both. Periodic income benefits for permanent and temporary total disabilities are generally less than two-thirds of average weekly wages previous to disability. State program formulas call for two-thirds of weekly wages, but benefit determinations are also subject to maximum and minimum payment limitations. Most states have maximum benefit levels that are 100 to 200 percent of state average weekly wages. In January 1981, minimum weekly benefits in the continental United States ranged from $15 (Arkansas and Tennessee) to $159 (Michigan) and maximums ranged from $98 (Mississippi) to $456 (District of Columbia) a week.[8]

PARTICIPANTS IN DISABILITY PROGRAMS

Estimates have been made of the total number of disability beneficiaries of public and private programs, based on administrative and survey data. By combining the totals of known beneficiaries of different federal programs, and adjusting them according to estimates of the number of beneficiaries of more than one program, an estimate of eight to nine million disabled persons receiving disability benefits is obtained.

A survey by the Social Security Administration (SSA) found more than 21 million working-age adults considered themselves disabled to some degree--about 17 percent of the adult population.[9] Only 5.6 million of these persons reported receiving

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8. Minimum and maximum weekly payments reflect January 1981 levels reported in U.S. Chamber of Commerce, Analysis of Workers' Compensation Laws, 1981 Edition (1980).

9. Social Security Administration, Work Disability in the United States, A Chartbook (December 1980). This study reports the results of the 1978 Disability Survey, a national survey (continued)

disability benefits. According to the SSA survey, in 1978 about 4.5 million of the 10.7 million persons who reported being "severely" disabled--that is, unable to work at all or to work regularly--reported receipt of disability benefits; about 7.8 million, however, indicated that they received some type of public transfer payment, not necessarily based on their disabilities.[10]

Demographic and Economic Characteristics

Disability beneficiaries tend to be older, and are more likely to be male and of a minority race, than disabled nonbeneficiaries or the nondisabled population. According to the SSA survey, among adults aged 18-64, about 54 percent of recipients of disability benefits were aged 55 to 64, compared to only 28 percent of nonrecipients (see Table 2), and 12 percent of the nondisabled population. This reflects the fact that the incidence of disability in the American population increases with age--that is, more persons become disabled as they grow older. Almost 63

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9. (continued)
conducted by the Social Security Administration. Disability was defined as a limitation in the kind or amount of work (or housework) a person could do because of a chronic health condition or impairment lasting three or more months. A severely disabled person was identified as one who professed not to be able to work at all or to work regularly due to a chronic health problem or impairment. Those who said they were able to work regularly, but unable to do the kind of work they did before they became disabled, were categorized as partially or occupationally disabled. According to the Health Interview Survey (1977) conducted by the National Center for Health Statistics (NCHS), persons aged 17-64 who are disabled to some degree--about 17 million--represent 13 percent of the population in that age group. The NCHS estimates indicate approximately 3.7 million of these disabled persons cannot perform their major activities and hence may be among the most severely disabled.

10. These estimates were derived from responses to the Social Security Administration's 1978 Disability Survey. Cash payments were considered disability benefits only if they were reported as received because of the survey respondent's disability.

TABLE 2. DISTRIBUTION OF DISABLED ADULTS AGED 18-64 BY FAMILY INCOME, AGE, RACE, SEX, AND BENEFICIARY STATUS: IN 1978

	Total		Receiving Disability Benefits[a]		Not Receiving Disability Benefits[a]	
	Number (in millions)	Percent	Number (in millions)	Percent	Number (in millions)	Percent
Total	21.3	100.0	5.6	100.0	15.6	100.0
Current Family Income[b]						
Less than $ 5,000	4.3	20.2	1.8	32.1	2.5	16.0
$ 5,000 - $ 9,999	4.7	22.1	1.6	28.6	3.2	20.5
$10,000 - $14,999	3.9	18.3	0.9	16.1	3.0	19.2
$15,000 - $24,999	4.5	21.1	0.9	16.1	3.6	23.1
$25,000 or More	3.8	17.8	0.5	8.9	3.3	21.2
Age						
18 - 34	4.7	22.1	0.6	10.7	4.1	26.3
35 - 54	9.2	43.2	2.0	35.7	7.2	46.2
55 - 64	7.4	34.7	3.0	53.6	4.4	28.2
Race						
White	18.1	85.0	4.6	82.1	13.5	86.5
Black	2.9	13.6	0.9	16.1	1.9	12.2
Other	0.2	0.1	0.1	1.8	0.2	1.3
Sex						
Male	9.9	46.5	3.5	62.5	6.5	41.7
Female	11.3	53.1	2.2	39.3	9.2	59.0

SOURCE: CBO tabulations of the 1978 Disability Survey data file.

NOTE: Columns do not always add to totals due to rounding and the exclusion of persons classified as unknown in a category.

a. Refers to receipt of cash payments based on the recipient's own disability.

b. Family income represents reported income for 1977.

percent of the beneficiaries are male compared to 42 percent of nonbeneficiaries and 49 percent of the total population. Although more women report being disabled than men, the fact that many women have little or no attachment to the labor force prevents them from making up a larger portion of the disabled receiving benefits. Almost 14 percent of the disabled population and 16 percent of disability beneficiaries are black compared to only 11 percent of the total population. The incidence of disability among blacks may be explained by the higher incidence of disability among those in unskilled occupations.

Families of disability beneficiaries tend to have lower total incomes than families of nonbeneficiaries and nondisabled persons, according to survey data. In 1977, only 25 percent of disability beneficiaries had annual family incomes of $15,000 or more, compared to 44 percent of nonbeneficiaries and 60 percent of the nondisabled.[11] In addition, three in ten severely disabled persons had family incomes below $5,000, whereas only one in ten of the nondisabled had incomes this low. About twice as many severely disabled beneficiaries of public programs, compared to the nondisabled, had family incomes below poverty levels.[12] The predominance of blue-collar occupations among beneficiaries and the fact that more than half of severely disabled persons have less than a high school education (compared to 24 percent of the nondisabled), account for some of the disparity in income levels. The fact that benefits often replace only a small fraction of previous earnings is another influencing factor.[13]

Increased understanding of the disabled population's activities may be gained by examining characteristics of those who worked as against those who did not. According to the 1978 SSA survey data, those who worked were more likely than nonworkers to be male (72 percent compared to 48 percent), younger than age 55 (73 percent versus 57 percent), and high school graduates (54 percent versus 47 percent). These patterns were not found to be quite as significant among severely disabled persons. For

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11. Social Security Amendments, Work Disability in the United States, A Chartbook, Chart 15.

12. Ibid., chart 17.

13. See Appendix D for additional information on the survey-reported sources of disability income.

example, both severely disabled workers and nonworkers tended to have less than a high school education. It is probable that the more total the disabilities are, the smaller the effect of other factors, such as age and higher education, on work behavior.

Health Characteristics

Disability beneficiaries usually suffer from multiple conditions that, along with aging, compound the degree of disability and often prevent early medical recovery. The severely disabled--both beneficiaries and nonbeneficiaries--often report three or more disabling health problems. They typically suffer from musculoskeletal and cardiovascular disorders, although a significant proportion suffer from respiratory (21 percent), digestive (28 percent), and mental (31 percent) disorders.[14] Since beneficiaries tend to be older than those not receiving benefits, the effects of aging, which reduces the ability to cope with diseases or major impairments, appear to combine with the physical and mental disorders suffered by disabled beneficiaries to cause lasting disabilities for many.

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14. These results were derived from the Social Security Administration's 1978 Disability Survey. The distribution of beneficiaries who have the same major health problems described above differs by program, however. For example, a smaller percentage of SSDI recipients than SSI recipients suffer from mental disorders (about 10 percent versus 31 percent), according to administrative data.

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CHAPTER III. CURRENT ISSUES

This chapter covers four main issues in the disability compensation system. First, the high costs of disability cash benefits are being questioned, since federal disability programs have experienced rapid growth in past years and could expand in the future, especially if any new disability programs were created. Second, despite the addition of new programs and expanded coverage of others, some workers still lack long-term disability protection except under welfare programs. Third, in spite of recent legislative changes, the system still provides high rates of earnings replacement to some disabled persons--for example, some current SSDI beneficiaries who were on the rolls before 1981 and certain recipients of nonwelfare benefits from more than one program. Finally, high benefits from a few disability programs, or high earnings replacements for some beneficiaries, may cause work disincentives.

TRENDS IN EXPENDITURES

Federal disability expenditures grew rapidly during the last two decades but their growth has declined during the last few years. Legislation enacted between 1977 and 1981 and significant administrative efforts have led to decreases in expenditure growth of major programs. Attempts are now being made not only to identify causes of rapid growth and respond to them, but also to test new administrative methods of controlling public expenditures in the future.

Past Expenditure Growth

A pattern of rapid expenditure growth in major disability programs was observed between calendar years 1965 and 1975. During this time, disability payments of major federal programs rose from $4.9 billion to $19.3 billion (see Table 3).[1] The

1. The federal government's share of all public and private disability expenditures grew from 63 percent of cash benefits (continued)

TABLE 3. EXPENDITURES FOR DISABILITY TRANSFER PAYMENTS BY MAJOR FEDERAL PROGRAMS, SELECTED CALENDAR YEARS, 1965-1980 (In billions of dollars)

Compensation Programs[a]	1965	1970	1975	1980	Average Annual Growth Rate 65-75	75-80
Social Security Disability Insurance	1.6	3.1	8.4	15.4	18.0	12.9
Veterans' Compensation	1.8	2.6	4.0	6.3	8.3	9.5
Civil Service Disability Retirement	0.3	0.5	1.3	2.9	15.8	17.4
Supplemental Security Income (for Blind and Disabled)[b]	0.3	0.6	2.6	4.1	24.1	9.5
Veterans' Pensions[c]	0.2	0.4	0.7	1.1	13.3	9.5
Other Federal[d]	0.7	0.9	2.3	3.3	12.6	7.5
Total Major Federal	4.9	8.1	19.3	33.1	14.7	11.4

SOURCES: CBO calculations; Jonathan Sunshine, Disability, U.S. Office of Management and Budget, staff technical paper (1979), pp. 29-30; and the Social Security Bulletin, Annual Statistical Supplement (1980).

a. Major disability programs include those providing long-term disability compensation and exclude all general sick-leave programs.

b. Federal welfare expenditures for the pre-SSI period--that is, grants to states for aid to the needy blind and disabled--are estimated for calendar years 1965 and 1970.

c. Excludes benefits to persons based on attainment of age 65.

d. Other federal programs included are military disability retirement, Black Lung Benefits, Federal Workers' Compensation, and railroad disability retirement.

programs that were most responsible for the growth in federal expenditures were the SSDI, SSI, civil service disability retirement, and veterans' programs. The most significant growth was experienced by the SSDI program, which became the largest single program in costs and numbers of beneficiaries on the rolls.

Causes of Rapid Expenditure Growth. Expanded eligibility, higher participation in the programs, and increased benefit levels were the main factors responsible for the rapid increase in federal disability expenditures. Although the effects were most dramatic in the SSDI program, the same factors caused growth in smaller programs such as civil service disability retirement, federal workers' compensation, and Black Lung Benefits. Many analysts believe a primary cause of rapid growth in participation was the rise in the level of expected cash benefits from major public programs, particularly SSDI.[2] The Black Lung Benefits and Supplemental Security Income programs were new federal programs initiated in 1969 and 1972, respectively, which made persons eligible for disability benefits who were unable to qualify for workers' compensation or SSDI benefits.

Several factors contributed to the growth in the number of SSDI program beneficiaries. First, the number of persons insured in the event of disability increased between 1965 and 1975. For example, the insured status for those under age 31 was liberalized in 1967, making it easier for younger persons to qualify. Second, the rate of disability claims within the insured population increased, although no apparent decline in population health was observed. The increased program participation was reinforced by

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1. (continued)
in 1965 to 68 percent by 1975. State and local government and private programs also grew during this period, although not as rapidly as federal programs. State and local government programs had an annual average growth rate of 11 percent and private programs one of 12 percent. State and local government payments rose from $1.4 billion to $4.0 billion, and private payments rose from $1.5 billion to $4.9 billion.

2. See, for example, Jonathan S. Leonard, The Social Security Disability Program and Labor Force Participation, working paper no. 392, National Bureau of Economic Research (August 1979), and Social Security Administration, Experience of Disabled-Worker Benefits Under OASDI, 1972-76, actuarial study no. 75 (June 1978).

high acceptance rates. Although the number of persons insured by SSDI increased by only 56 percent between 1965 and 1975, the total number of new awards to disabled workers increased over 134 percent--from 253,000 to 592,000.[3] This result was due in part to the easing of eligibility rules during that period, and the availability of Medicare benefits associated with SSDI beginning in 1972, which may have encouraged previously eligible persons to apply.

Increased public awareness of new programs, relaxed program administration, and high unemployment also served to increase participation rates.[4] The publicity associated with the initiation of the Black Lung and SSI programs, as well as the joint administration of these programs with SSDI, served to make more persons aware of their eligibility for SSDI benefits. The number of SSDI applications, for example, increased by a phenomenal 25 percent between 1973 and 1974--the first year of SSI operations. Lenient administration of these programs, as evidenced by a decline in numbers of cases reviewed at the initial determination level, also contributed to the growth in beneficiaries. In addition, increased unemployment may have led to more applications for disability benefits. Between 1973 and 1975, when unemployment peaked, the number of new SSDI awards grew from 6.3 to 7.1 per 1,000 insured workers before dropping to 6.5 per 1,000 insured workers in 1976.

Enactment of ad hoc and then of automatic cost-of-living adjustments during the 1970s caused benefit levels in federal programs, particularly SSDI, to increase more rapidly than average wages. Between 1970 and 1978, for example, legislated adjustments in SSDI benefits caused average payments to increase by 120 percent, whereas average wages increased by only 70 percent. Rising benefit levels not only increased expenditures directly, but in turn further increased participation rates as fewer beneficiaries

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3. Social Security Administration, Social Security Bulletin, Annual Statistical Supplement (1980).

4. See John Korbel, "The Growth in Social Security Disability Insurance and Its Causes," Memo to the Senate Budget Committee and House Budget Committee staffs, December 1978. See also Mordechai Lando, Malcolm Coate, and Ruth Kraus, "Disability Benefit Applications and the Economy," Social Security Bulletin (October 1979), pp. 3-10.

left the disability rolls. While the indexing of benefits in the mid-1970s assured federal program beneficiaries that their disability incomes would rise to offset inflation, it also escalated costs per beneficiary remaining on the rolls.

Reasons for the Present Decline in Expenditure Growth. After a long period of high growth rates, federal expenditures for disability cash benefits are showing signs of growing more slowly. Between 1975 and 1981, new awards from major programs declined, thereby helping stabilize growth in the number of recipients. Initial awards to disabled workers under the SSDI program decreased from a peak of 592,000 in calendar year 1975 to 569,000 in 1977, 389,000 in 1980, and 345,000 in 1981. The numbers of new awards for SSI benefits have also declined substantially, while the eligible population has remained stable.

Tighter administration of program provisions and the public attention given to abuses of the disability system have contributed to the slowing of growth in federal disability benefits. The review of SSDI cases at the initial determination level was improved and the review procedure itself was restructured in 1977; this raised the quality of disability determinations within the SSDI program and reduced the number of new beneficiaries.

The decline in unemployment after 1975 and the stabilization of new programs probably contributed to the decline in expenditure growth. Unemployment rates declined from 8.5 percent in 1975 to 5.8 percent in 1979. It is possible that workers with health problems were able to remain employed during this time. The end of the startup period of new programs and the adjustment to liberalized eligibility in the late 1960s and early 1970s is another likely cause of the decline in program growth in SSDI and other federal programs.

Prospects for Future Expenditures

A further slowing in disability expenditure growth during the next decade may be expected, although changes in the disability system--such as the creation of new programs or higher incidence of disability in the population related to aging--could prevent a decline in real expenditures. Future expenditures will depend on economic and demographic factors and on programmatic factors such as disability denial rates. Continued restraint on the number of disability awards would allow a continued decline in expenditure growth despite high unemployment rates, for example. On the other

hand, expanded eligibility for disability benefits or increased participation among those already eligible for welfare or SSDI could cause new growth in disability cash benefits.

Cost Limitations in Recent Legislation. Laws passed in recent years should work to restrain growth in cash benefits in the near term. Benefit levels under the SSDI program were significantly reduced by the 1977 and 1980 amendments to the Social Security Act. The 1977 amendments established benefit levels for newly entitled beneficiaries based on wage-indexed earnings, thereby correcting a previous flaw in benefit computations, and the 1980 amendments set a lower ceiling on the maximum family benefit levels in SSDI. Also, a requirement for a three-year periodic review of all nonpermanent disability cases should increase the number of recovered persons leaving the SSDI rolls beginning in 1982. The annual savings to the SSDI trust fund resulting from the 1980 amendments' provisions that established a new cap on family benefits and changed benefit computations were estimated to be $1.2 billion by 1985, or about 5 percent of expected outlays.

Other federal laws will also reduce disability expenditures. For example, the Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499) mandates a stricter definition of work disability in the civil service disability retirement program. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) placed a ceiling on combined benefits received from SSDI and some other public programs (often referred to as a "mega-cap"). This latter restraint on benefit levels applies only to those entitled to benefits after August 1981, however. The Black Lung Revenue Act of 1981 raises the coal tonnage tax to provide more revenue for the Black Lung Trust fund and thereby end the insolvency problem in that program. In addition, it tightens eligibility requirements by eliminating certain presumptions of disability for new claimants, thereby saving an additional $13 million in 1983 outlays.

Expenditures for Occupational Diseases. Federal expenditures for work-caused illnesses could escalate in future years if new federal programs are created to provide benefits to victims of occupational diseases. The public and the Congress have become more aware of the lack of compensation for many workers suffering from disabling occupational diseases. As a result, the federal role in compensating recent victims of black lung disease has

continued beyond its initial curtailment dates.[5] In addition, various pieces of legislation have been introduced in recent years that would establish new programs to compensate victims of brown lung, asbestosis, and radiation-induced diseases. (See discussion of this later in this chapter, pp. 34-36.)

Past trends in disability compensation indicate that in the short run, expenditures for occupational diseases are more likely to be federal than state government responsibilities. State-based programs such as workers' compensation have only recently begun to compensate for disabling occupational diseases on a broad scale, leaving SSDI or public assistance as the only sources of compensation. An easing of eligibility rules within state workers' compensation programs, or the creation of a new program at the federal level, would be in line with the historical pattern for providing compensation to workers permanently disabled by an occupational disease.

Aging of the Population. What effect will the aging of the general population have on the size of the future disabled population and hence on costs in future years? The aging of the general population will tend to increase the number of disability beneficiaries, since the incidence of disability in the general population increases with age. Persons born in the "baby boom" years between 1945 and 1965 will increase the size of the work force until 1985, and therefore increase the number of persons exposed to work-caused disabilities. Also, the worsening of low-rated disabilities in the veteran population as World War II, Korean, and Vietnam war veterans age will probably cause automatic increases in veterans' compensation expenditures, even though new awards will have declined.

Projections of SSDI expenditures in the short run reflect a trend of reduced growth, both in numbers of new beneficiaries and in total costs. The number of persons aged 50 to 64, a group most likely to obtain SSDI benefits, will decline over the next few years before increasing again about 1990. Case termination rates that are higher than recent experience are also projected as a result of increased review of beneficiaries' disability status.

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5. The Black Lung Program was amended in 1972 (Public Law 95-239) with a provision to end payment of new claims after 1981, before subsequent legislation in 1978 deleted the curtailment date.

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The sensitivity of cost to these assumptions is described in the Annual Report of the OASI Board of Trustees.[6] It shows that differences in economic and demographic assumptions--in assumed mortality rates, for example--lead to large differences in projected SSDI expenditures.

DISABILITY COVERAGE AND BENEFITS

This section addresses two related problems: gaps in coverage of disability programs, and lack of benefits even when covered. The coverage problem is twofold: First, not all persons, and particularly not all workers, participate in a program that could potentially provide disability benefits. Second, although workers may be participating, they are often not vested or have not participated long enough to be insured under a program or pension plan. When insured disabled persons fail to receive benefits, the reason is usually that they have been denied a disability determination under specific program definitions.

Lack of Coverage

Approximately one-fifth of the work force--more than 22 million workers--is either without coverage or uninsured by major programs for total non-work-related disability. Although 90 percent of all workers are covered by Social Security, about 20 percent of those currently paying into the system are uninsured for disability.[7] Of the 9.4 million workers lacking Social Security

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6. 1982 Annual Report, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund (1982). All projections in the Trustees' report assume that the age-sex-adjusted disability incidence rate--the ratio of new awards to the number of insured workers--will decline in 1982 but increase steadily from 1983 through 2000.

7. The number of uninsured workers under Social Security is derived from 1977 and 1979 estimates of covered workers not insured for disability contained in the Social Security Bulletin, Annual Statistical Supplement (1980), tables 42-44. For a more detailed estimate of Social Security coverage, see Yung-Ping Chen, "Special Issues in OASDI," Social Security in a Changing Society (Macahan Foundation, 1980), pp. 129-30.

coverage, a significant portion are also not vested in a private or government program; in 1981, about 13 percent of the 2.7 million federal employees participating in the civil service retirement system were not eligible for disability benefits because they had less than five years in service (see Table 4). In addition, approximately 3.3 million state and local government workers are without Social Security coverage because their employers have not elected coverage; more than 1.5 million of these persons are estimated to be without disability protection under employer plans.

Persons not covered for total disabilities include nonworkers, some federal, state, and local government workers, and many self-employed individuals. Since most disability benefits are associated with employment, groups such as casual workers and housewives are generally not covered by public or private programs. Self-employed workers or domestic workers with low or infrequent earnings often lack coverage. In addition, certain federal government workers are excluded from coverage under the civil service program--for example, certain Congressional, temporary, and appointed workers.

Covered but uninsured workers tend to be young, with little experience in the labor force. Such workers are not insured under SSDI or private pensions because they generally have worked less than one year in covered employment, have low earnings, or are below pension age requirements. Part-time workers and those under age 25 are often excluded from participation in a pension plan or its associated disability insurance plan. Some experienced full-time workers are uninsured, however, often because they have shifted between covered and noncovered employment. For example, federal workers leaving federal employment after more than five years of employment immediately lose disability coverage under federal programs, and may lack insured status under SSDI until they have worked at least five years in the private sector.

Assessing the lack of any disability coverage is a complex problem because the severity of disabling impairments varies widely, and only self-reported data are available for those not drawing benefits. For example, survey data indicate about half of all disabled persons perceive themselves as being only partially disabled--about 10.6 million persons--but only 1.1 million receive long-term disability compensation (see Chapter II). Extended employer sick-leave benefits in the public and private sector often alleviate the problem for partially disabled persons, although these benefits may not last as long as the disabilities.

TABLE 4. CIVILIAN WORKERS NOT COVERED OR UNINSURED FOR TOTAL NON-WORK-RELATED DISABILITY: ESTIMATED FOR 1981 (In millions)

Category[a]	Employed Workers	Not Covered or Uninsured
Workers Covered by Social Security[b]	91.0	18.2
Workers Not Covered by Social Security	9.4	4.1
o Federal Workers[c]	2.8	0.4
o State and Local Employees[d]	3.3	1.5
o Private-Sector Employees[e]	3.3	2.2
Total Workers	100.4	22.3

SOURCE: Social Security Bulletin, Annual Statistical Supplement (1980); Interim Report, President's Commission on Pension Policy (1981); CBO calculations.

a. Civilian workers include all workers age 16 and over in the noninstitutional population and exclude all those unemployed or temporarily out of the labor force in 1981. See Bureau of Labor Statistics, Monthly Labor Review (April 1982), pp. 72-3.

b. An estimated 18-20 percent of living workers covered by Social Security and under age 65 were uninsured in the event of disability in 1977 and 1979. See Social Security Bulletin, Annual Statistical Supplement (1980), tables 42-44. Roughly 90 percent of all workers and 95 percent of all jobs in the United States were covered under Social Security in 1981. Some estimates of coverage are as high as 92 percent of all workers in 1978. See Yung-Ping Chen, "Special Issues in OASDI," Social Security in a Changing Society (1980), pp. 129-30.

(continued)

TABLE 4. (continued)

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c. At the end of 1981, approximately 360,000 of the 2.7 million federal employees covered under the federal retirement system were not insured for disability benefits under that system. About one-half of these persons are assumed to have some coverage under Social Security from either second jobs or previous work, however.

d. Approximately 75 percent of the 13.3 million state and local employees in 1981 were covered by Social Security. The number uninsured by state or local programs is derived by counting 53 percent of state and local employees as having disability coverage under a pension plan. See Appendix B and the Interim Report, President's Commission on Pension Policy (1981), p. 23.

e. This estimate is derived by counting as insured one-third of the 3.3 million casual workers and farm or self-employed workers and employees of nonprofit organizations currently not covered (or not electing coverage) under Social Security. See Yung-Ping Chen, "Special Issues in OASDI," and Appendix B of this paper.

Lack of Benefits

The major reason that impaired persons who are insured for disability do not receive benefits is that they are found not to be disabled according to program definitions. Often a worker is considered only partially disabled or temporarily disabled and thus not eligible for benefits from programs such as SSDI or SSI. For example, in fiscal year 1981, approximately 54 percent of 985,800 applicants for SSDI were denied benefits based on a disability determination. Currently, it is especially difficult for a worker disabled by some occupational diseases to prove total disability and therefore eligibility for long-term benefits, since occupational diseases usually begin as chronic health problems and then gradually become more disabling.[8] In addition, many who seek workers' compensation benefits are unsuccessful because the worker must prove that the disability results from a work-caused impairment that occurred within a specific time period.

A related problem is that persons with similar impairments may meet the disability definitions in some programs but not in others, because of the great variation in these definitions. The definition of disability in the SSDI and SSI programs is more restrictive than in other federal programs. For example, disabled workers may qualify for civil service disability benefits, railroad retirement benefits, military disability, or black lung benefits without having to prove an inability to hold any job in the national economy.

Problems in Covering Occupational Diseases. The main issue concerning occupational diseases is whether existing general programs are adequate or whether special programs are needed. Total disability from an occupational disease is now a compensable disability under a variety of programs such as SSDI, workers' compensation, private pensions, and individually purchased insurance. Coal miners may also be eligible for federal Black Lung benefits.

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8. See, for example, an analysis of problems in compensation for occupational diseases in U.S. Department of Labor, An Interim Report to Congress on Occupational Diseases (June 1980), and L.W. Larson, "Analysis of Current Laws Reflecting Workers Benefits for Occupational Diseases," contract report prepared for ASPER, U.S. Department of Labor (May 1979).

Many contend that since occupational diseases are work-caused impairments, state workers' compensation benefits should be the primary compensation for the resulting disabilities. Although all these programs now recognize responsibility for occupational diseases, the actual coverage and compensation vary by state. Most states now allow additional time periods, three years or more, between the last exposure to the inflictive working environment or the discovery of disability before an application for benefits is required.[9] Difficulties in diagnosing such disabilities means that many disabled workers still do not qualify for benefits, however.

New programs covering occupational diseases have been proposed recently because of concern that persons disabled by such diseases will not actually receive benefits under current programs. Several bills have been introduced recently that would establish federal programs for victims of asbestosis or uranium-ore-related diseases.[10] The concern is based on the fact that current programs tend to consider these diseases as only partially disabling. Even if a disease becomes more disabling in later years, that it results from the working environment may be hard to establish when other factors such as age or smoking habits are considered.

Three major problems evolve from special programs to compensate the occupationally disabled. First, the benefits may overlap with current programs such as SSDI or state workers' compensation. Second, the costs of such programs may become prohibitive, especially if large numbers of workers are immediately eligible for benefits or for retroactive payments. This was the experience in the Black Lung-Part C program; in 1979, for example, after the

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9. State coverage of occupational diseases is outlined in U.S. Chamber of Commerce, An Analysis of State Workers' Compensation Laws (January 1981), pp. 10-13.

10. For example, the House Education and Labor Committee Chairman has introduced a special Occupational Disease Compensation bill in the 97th Congress--H.R. 5735. The bill provides for compensation to victims of asbestos-related diseases through responsible employer-financed provisions. Also, S. 381--a bill to provide compensation for brown lung disease--was introduced in the 96th Congress. Proposals to deal with asbestosis and radiation-induced disorders were introduced in the 96th Congress.

Black Lung Benefits Reform Act of 1977 (Public Law 95-239) eased eligibility rules and required a review of all denied or pending cases, benefit costs increased from $25 million in 1977 and $43 million in 1978 to $615 million. Presumption of disability after a worker has been exposed to a particular working environment for a number of years may be an inherent aspect of special programs leading to serious work disincentives: more and more workers or survivors of probable victims will apply for benefits, and costs will increase.[11] Also, disability retirement may become an alternative to regular early retirement. Finally, the availability of special benefits may reduce employers' incentives to improve the working environment and eliminate the causes of some occupational diseases, unless the total costs of compensation are borne by the responsible employers.

Attempts to solve the problems raised by presumptive eligibility have been only partially successful. The primary focus has been on improving medical diagnoses and defining more rigorously the evidence needed to establish a particular occupational disability. For example, an X-ray or autopsy can establish the existence of disabling black lung disease, but these may not suffice to rule out its existence in early stages.[12] In spite of new methods of medical detection, presumptions of disability may still be unavoidable for certain occupational diseases.

Problems in Determining Disability. A related problem is the perceived discrepancies in disability determinations. A large and increasing proportion of initial decisions in SSDI cases are

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11. The Black Lung Benefits program until recently amended (Public Law 97-119), has been a key example of the expanding costs of categorical disability programs. In 1980, the GAO found 9 out of 10 awards under the Part B program compensated individuals with inadequate medical evidence of black lung disease. See General Accounting Office, Legislation Allows Black Lung Benefits to be Awarded without Adequate Evidence of Disability, report no. HRD-80-81 (July 1980), and statement of Morton E. Henig before the Subcommittee on Oversight, Committee on Ways and Means, on the Black Lung Program and Black Lung Disability Trust Fund, July 27, 1981.

12. See for example, Lorin E. Kerr, "Black Lung," Journal of Public Health Policy, vol. 1, no. 1 (March 1980), p. 59 (Journal of Public Health Policy, Inc., Reprint).

appealed. Reversals of initial denials often encourage more appeals and suggest there may be a lack of uniformity within program administration. A special problem has developed within the SSDI program as reversals of denials of SSDI disability status under the continuing disability investigation (CDI) procedures in the last two years may reduce program savings expected from the CDIs. In 1980 through 1981, reversals of decisions to terminate SSDI benefits were made for about 60 percent of appealed cases.

Litigation in disability determinations arises primarily because definitions of disability are interpreted differently by disabled persons, medical examiners, program administrators, and the courts. The SSDI program's appeals process has become controversial in recent years, partly because of the number of appeals and also because of the great variation in decisions made at progressively higher levels of the process. It consists of two reviews at the state-agency levels, one district review--the administrative law judge (ALJ) level--and a hearing council. In recent years a larger portion of claims have been reviewed at the ALJ level, and over half of the denials reviewed by the ALJ have received favorable determinations. Moreover, some claimants denied at all administrative levels acquire favorable determinations in the courts.

The primary cause of these discrepancies in decisionmaking appears to be the fact that many different factors enter into disability definitions--for example, the use of age, education, and vocational factors as well as medical factors in the SSDI definition of disability. To be eligible for SSDI benefits, a medically disabled worker must be unable to work regularly at any job, considering not only the physical disability but factors such as educational background or previous work experience that also enter into determining the ability to work, especially for those over age 54. Furthermore, it is often impossible to make an accurate evaluation of a disabled person's ability to work. Also, since initial decisions are made first at the state agency level, disability determinations are seldom uniform.[13] Critics of the SSDI program point to the lack of federal control, or lack of

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13. See Deborah A. Chassman and Howard Rolston, "Social Security Disability Hearings: A Case Study in Quality Assurance and Due Process," Cornell Law Review (June 1980), pp. 801-22.

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federal decisionmaking, at initial levels of determinations as a main cause of these discrepancies.[14]

INCOME REPLACEMENT AND BENEFIT AMOUNTS

Income replacement varies greatly among disabled persons, with perhaps the most important variation being the disparity between those with severe or total disabilities who receive long-term benefits and those who do not. There is also wide variation in cash benefits for similar disabilities. For example, income replacement varies among programs because of the different ways programs compute benefits; it also varies within programs, particularly when one compares benefits computed before and after changes in laws determining benefit levels.

This section of the paper describes variations in predisability earnings replacement levels, with much of the emphasis on what appear to be unduly high or low replacement rates. It also discusses the causes of very high and very low rates.

Earnings Replacement Rates

Among disabled beneficiaries, the amount of earnings replaced by benefits varies by program, largely because of the differences in ways they calculate benefits.[15] Programs that relate benefits

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14. The Social Security Disability Amendments of 1980 required the Secretary of Health and Human Services to review some disability decisions rendered by ALJs and to report to the Congress on the uniformity and accuracy of ALJ decisions--a requirement commonly referred to as the Bellmon amendment. The Secretary reported that a significant amount of variation in decisions made by state agencies and ALJs was the result of differences in standards and procedures used by the ALJs and state evaluators. The 1980 Amendments also require a federal review of state disability allowance and continuation determinations on a preeffectuation basis--35 percent of SSDI determinations in 1982--in order to assure greater uniformity and consistency in the decisions made.

15. Changing the definition of previous earnings can affect measured replacement rates substantially. This issue is discussed at the end of this section.

to previous earnings replace a specified portion of the most recent earnings level, or of career or lifetime earnings. (Benefit computations of major programs are described in Appendix A.) For example, state workers' compensation programs will pay two-thirds of weekly wages for total disability as long as this amount does not exceed state maximums. Benefits in programs such as SSDI are related to career earnings in covered employment. On the other hand, some benefits depend on the severity of the impairment, as in veterans' compensation, while welfare benefits are determined by minimum income standards.

There is much concern about benefits that are either very high or very low relative to the disabled person's previous earnings. Earnings replacement may be considered high when benefits provide an amount greater than the income available before disability, since that income is presumed to have been adequate for an individual--even when other family members depended on this income. Income available before disability is usually subject to many reductions, however, such as income taxes, retirement contributions, health insurance payments, and work-related expenses, so that disability benefits can be considered high when they are less than predisability pay but close to previous after-tax income levels. By this criterion, high earnings replacements can mean those greater than 80 percent of previous after tax income, or about 60 percent, on average, of gross earnings.[16] At the other end of the scale, low earnings replacement may be defined as less than one-half of previous adequate income, or less than 30 to 35 percent of predisability gross earnings.

Most disabled workers receive total disability benefits that are not high relative to earnings just before disability. For example, survey data indicate that about 73 percent of those who

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16. After-tax and after-expense income can be replaced by about 70 to 75 percent of gross earnings, on average. This amount would be a complete replacement of spendable income, however. The Health Insurance Association of America has estimated that a reasonable replacement rate, which would have a built-in work incentive and take into account previous work expenses, would be 55 to 65 percent of predisability earnings. See Health Insurance Association of America, Disability Compensation Systems (1979), pp. 1-2. Also, see the general discussion in Social Security Disability Amendments of 1980, S. Rept. 408, 96 Congress (1979), pp. 39-40.

receive disability benefits--or 23 percent of all disabled workers--replace 60 percent or less of their previous earnings (see Table 5). Most severely disabled recipients who receive benefits from only one program have earnings replacements of 60 percent or less--for example, 72 percent of those receiving only SSDI have replacement rates of 60 percent or less. About 3 percent of disabled survey respondents--or 12 percent of beneficiaries--report receipt of benefits exceeding 100 percent of previous earnings, however.

The majority of persons receiving high earnings replacements are low- and mid-level earners, according to survey data. More than 60 percent of male disabled beneficiaries reporting predisability earnings in the 1978 survey had earnings below $6,200 in 1977 wage-indexed earnings (see Appendix Table D-4). The poverty level for a nonfarm family of four in 1977 was $6,191; hence, many recipients of high replacement rates received below-poverty-level disability incomes.

Causes of High Replacement Rates

There are three main causes of high earnings replacement:

- High family benefits from a single program;
- Benefits that are not based on previous earnings; and
- High cumulative benefits from more than one program.

High Family Benefits. Additions to benefits for dependents can result in high income replacement rates. Family benefits are sometimes fixed amounts, but usually are derived as a percentage of the disabled beneficiary's payment; for example, SSDI and Black Lung benefits to disabled workers are increased by 50 percent for one dependent. About 14 percent of SSDI-only beneficiaries severely disabled between 1972 and 1976 received benefits in 1977 that were greater than their previous earnings, primarily because of dependents' benefits for low earners.[17] This ratio is expected

17. Future SSDI beneficiaries will receive lower replacements of their predisability earnings than many current beneficiaries, (continued)

TABLE 5. PERCENT DISTRIBUTION OF 1977 REPORTED EARNINGS REPLACEMENT RATES FOR SURVEY RESPONDENTS DISABLED BETWEEN 1972 AND 1976, BY RESPONDENT CATEGORY

Respondent Category	Replacement Rates[a]				
	0	Above 0 and Below .35	.35-.60	.61-1.0	Above 1.0
Disabled Respondents	69	12	11	5	3
Disabled Beneficiaries	--	38	35	15	12
Severely Disabled Respondents	50	15	20	8	7
Severely Disabled Beneficiaries					
All	--	31	39	16	14
SSDI Only	--	36	36	14	14
SSDI Plus Others[b]	--	16	38	27	19
SSDI Plus Nonwelfare[c]	--	17	36	26	21

Source: CBO tabulations of the Social Security Administration's 1978 Disability Survey data.

a. The replacement rate is defined as the ratio of disability cash benefits to predisability gross earnings (wage-indexed). Earnings in the year before the occurrence of the work-limiting disability were used in the computation.

b. All other sources of disability benefits are included. Major public and private sources of disability benefits were referenced on the 1978 Survey questionnaire, but a catch-all category was used for other nonreferenced disability benefits.

c. All other public sources of disability benefits are included except SSI, AFDC, and public assistance payments. Veterans' pensions could not be separated from compensation payments, however.

d. Sample sizes for these replacement intervals were too small for reliable estimates.

to decline in the future, however, since the Disability Amendments of 1980 (Public Law 96-265) placed a special cap on SSDI family benefit levels for new cases--the lesser of 85 percent of the average indexed monthly earnings or 150 percent of the worker's benefit. The family benefit cannot be less than the computed worker-only benefit, however, so that many low earners who receive SSDI and often means-tested benefits are protected from reductions in cash benefits resulting from this cap.

Although benefits to dependents are not the primary objective of disability programs, disability benefits that are intended as indemnity payments often include allowances for dependents that increase with the number of dependents. In veterans' programs, for example, there is no limit on the amount of additional dependents' benefits. This practice significantly raises the level of compensation for those with dependents, but causes different treatment of similarly impaired persons. Another example is that FECA recipients who have dependents receive benefits that equal 75 percent of their previous gross earnings, whereas single beneficiaries and recipients of state workers' compensation payments seldom receive benefits this high.

High Benefits Not Based on Previous Earnings. High disability benefits relative to previous earnings can be received when benefits are not based on previous earnings. Many receiving veterans' compensation, for example, receive benefits substantially in excess of what they earned before they were disabled. Previous earnings for many disabled veterans--for example, draftees disabled in war service--consisted of military pay that was substantially lower than the benefits received. Totally disabled veterans receive at least $1,130 per month in compensation

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17. (continued)
particularly those awarded benefits between 1972 and 1979. Benefit computations for future disabled workers will be less generous because of changes enacted in 1977, 1980, and 1981 laws (see earlier discussion in this chapter). Replacement rates for many of those who receive high replacements--that is, younger disabled workers and disabled workers with dependents--were significantly reduced. For example, the maximum replacement rate for a 30-year-old average earner in 1977 was about 104 percent compared to 66 percent for such an earner in 1981. (These data were obtained from unpublished Social Security Administration data.)

and those with families can receive additional amounts--for example, $116 per month for a spouse and child. On an annual basis, the family benefit of $14,952 is about 1.2 times the average military pay in 1981, twice the full-time minimum wage, and almost twice the average SSDI benefit for a similar family.

Since veterans' compensation is looked upon as an indemnity payment for losses incurred while in service, wage replacement may not be an appropriate or relevant benchmark for these payments. Also, high benefits relative to earnings can be received by recipients of welfare programs, such as SSI or veterans' pensions, although these welfare payments are low.

High Cumulative Benefits from More than One Program. Earnings replacement rates are generally higher for recipients of benefits from multiple sources than for single-program beneficiaries, and a significant number of those disabled persons who receive some disability compensation receive benefits from more than one program. According to survey data, more than 20 percent of recently disabled beneficiaries receive benefits from more than one program; most receive SSDI as one form of compensation (see also Appendix D, tables D-3 and D-4).[18] Among SSDI beneficiaries

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18. According to the Social Security Administration's surveys, in 1978, about 31 percent of SSDI beneficiaries received benefits from another public program. Higher proportions of veterans' and civil-service disability retirement beneficiaries--41 and 48 percent, respectively--also received benefits from at least one other program according to survey results; many of these beneficiaries, however, received SSDI as the other program benefit in 1978. See also L. Scott Muller, "Receipt of Multiple Benefits by Disabled-Worker Beneficiaries," Social Security Bulletin (November 1980), pp. 3-19. This article reports receipt of benefits from multiple sources based on the 1972 Disability Survey. In the 1972 survey, disability and retirement benefits were not separable in many instances; however, the study found 44 percent of SSDI beneficiaries to be recipients of multiple benefits. A study by the General Accounting Office found that only 16 percent of SSDI beneficiaries on the rolls in March 1980, who were disabled in 1977 or 1978, received benefits from multiple sources. See U.S. General Accounting Office, Limits on Benefits from Multiple Sources Could Save Millions, pp. 2-4.

first severely disabled between 1972 and 1976, almost half of those with benefits from another program had more than 60 percent of their last year's earnings replaced and 19 percent had more than 100 percent of earnings replaced (see Table 5). In addition, 20 percent of those receiving benefits from veterans' programs and other public sources, including SSDI, replaced more than 100 percent of previous earnings.

Receipt of benefits from more than one disability program does not always mean receipt of high cumulative benefits, however. About half of recently disabled workers receiving benefits from SSDI and other programs receive SSI or other welfare benefits, according to survey data. Since SSI and other welfare benefits are means-tested, total benefits received by these disabled persons are low compared to average disability benefits.

Receipt of high cumulative benefits is limited to a degree because some benefits are reduced, in part or totally, when benefits are received from other programs. For example, means-tested benefits or welfare payments are reduced dollar-for-dollar by other benefit payments; SSDI and Black Lung programs offset benefits received from state workers' compensation programs; and civil-service disability and federal workers' compensation benefits cannot be received concurrently for the same disability.

Receipt of nonintegrated benefits from public programs has been a legislative issue in recent years. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) requires new SSDI benefit awards to be reduced by amounts received from some other public programs. The provision limits combined program benefits to 80 percent of average current (predisability) earnings--the same offset provision that is used against workers' compensation benefits. It applies to new awards under several public programs, but excludes means-tested benefits, veterans' program benefits, and public pension benefits based on public employment that was also covered by Social Security.

The exclusion of veterans' compensation benefits and the prospective nature of the SSDI cap will limit the effectiveness of this legislation, since a major part of the overlap problem involves these two programs and all current beneficiaries will make up a high proportion of the recipient population for years to come. Veterans' compensation beneficiaries currently make up about 25 percent of SSDI recipients who receive other benefits; about half of this group replace more than 80 percent of their

previous earnings.[19] Moreover, this group will probably continue to make up the larger proportion of SSDI beneficiaries with duplicative payments over the next decade. Those entitled to SSDI benefits before 1980 also were awarded payments resulting in higher earnings replacements than those entitled later.

Causes of Low Replacement Rates

Disability beneficiaries are more likely to receive low than high earnings replacements. For example, survey data indicate that about 40 percent of all recently disabled beneficiaries receive cash benefits replacing less than 35 percent of previous earnings, whereas less than 30 percent receive high replacements.

Like high replacement, low replacement of earnings occurs because of the way benefits are calculated. Means-tested benefits from programs such as SSI, for example, are not based on previous earnings but provide a minimum amount of income relative to the national poverty standards. Consequently, workers who are only eligible for SSI benefits may have low replacement rates. Also, benefits that are based on a schedule or on severity of impairment, as in veterans' compensation, often replace less than half of predisability earnings, especially when there is only a partial disability. Finally, SSDI and private pension beneficiaries receive low earnings replacement in cases where recent earnings previous to disability were significantly higher than average career earnings. Due mainly to the "tilt" in the Social Security benefit structure that favors low-income workers, some SSDI beneficiaries with high previous earnings can also receive above-average dollar amounts, but low benefits relative to their previous earnings.

In past years, replacement rates among severely disabled state workers' compensation beneficiaries have been noticeably low, since state maximum payments were lower than national average weekly wages.[20] Lump sum payments from some state programs can

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19. U.S. General Accounting Office, Limits on Receipt of Multiple Disability Benefits Could Save Millions, p. 6.

20. In 1975, average replacements of 12 percent were observed among permanently impaired workers receiving benefits from state workers' compensation programs in California, Florida, New York, Washington, and Wisconsin. See William G. Johnson, (continued)

also result in particularly low replacement rates if no benefits are received from other sources.

Problems in Measuring and Comparing Earnings Replacement Rates

Different methods of computing previous earnings provide different estimates of replacement rates, particularly in the proportion of beneficiaries with very high or very low replacement rates. For example, a comparison of SSDI replacement rates based either on earnings in the year before disability or on lifetime covered earnings shows substantial variation in the number of persons with replacement rates below 40 percent or above 200 percent.[21] Replacement rates based on earnings in the last year before disability were often higher than replacement rates based on lifetime earnings; such differences are often observed when earnings fall gradually during the period before individuals become totally disabled. Median replacement rates for the same years, however, differed by less than 1 percent.

Consequently, caution is necessary when interpreting replacement rates based on the last year's earnings. First, as noted above, lower than normal earnings in the year before disability can cause an overstatement of the replacement level. This is particularly likely when programs actually relate disability compensation to average earnings over the highest three years of covered employment rather than the most recent years. To diminish overstatements, predisability earnings might also be adjusted for potential earnings in an established career.[22] Second, high

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20. (continued)
Paul Cullinan, and William P. Currington, "The Adequacy of Workers' Compensation Benefits," Research Report of the Interdepartmental Workers' Compensation Task Force, vol. 6 (June 1979), p. 95.

21. L. Scott Muller and Mordechai E. Lando, "Replacement of Earnings of the Disabled under Social Security: Levels and Trends 1969-75," Research Report No. 53, Social Security Administration (June 1980), p. 10.

22. For an extensive discussion on adjusting measures of predisability earnings for potential earnings, see William G. Johnson and others, "The Adequacy of Workers' Compensation Benefits," p. 102.

medical expenses for severely disabled beneficiaries can also mean that replacement rates appear artificially high. For example, when survey-reported medical expenses paid by the beneficiaries are subtracted from benefit payments to severely disabled persons in 1978, median replacement rates drop about four percentage points. On the other hand, replacement rates may understate the value of benefits received. For disability recipients who can continue some work, one might want to compare the sum of earnings after disability plus benefits to predisability earnings.

WORK DISINCENTIVES

This section of the paper discusses another important issue in the disability system: the existence of work disincentives. Program administrators and many in the Congress are concerned that program costs are unnecessarily high because current cash benefits discourage disabled workers and disabled beneficiaries who could work from returning to jobs after medical recovery. Significant increases in disability program caseloads in past years may be evidence of a growing problem of work disincentives.[23] On the other hand, many disabled persons who can work are doing so, and lack of available jobs or flexible working conditions may prevent others from working. Also, work disincentives may be an inherent problem in disability programs since often the inability to work is a requirement for the receipt of benefits and a major determinant of "ability to work" is whether the potential recipient has earnings above specified levels.

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23. During the past decade, decreases in the number of beneficiary terminations for recovery occurred at the same time as increases in awards from major disability programs like SSDI and CS. For example, while SSDI beneficiaries doubled between 1969 and 1976, the number of disabled workers leaving the rolls due to recovery declined from 28 per 1,000 disabled workers to 15 per 1,000. Recovery rates rose to 22 per 1,000 in 1977, however, the first increase in the entire period, and 25 per 1,000 in 1979. See Social Security Administration, Experience of Disabled Worker Benefits Under OASDI, 1974-78, Actuarial Study No. 81 (April 1980).

Causes of Work Disincentives

Several characteristics of current disability programs create work disincentives. In particular, program provisions that reduce or cut off cash and medical benefits when earnings increase or that permit high income replacement rates--due either to high benefit levels or to high cumulative benefits from more than one program--make working less compelling. Additional factors that interact with work disincentives, such as age and other family income, may also independently influence decisions to work.

Work or Earnings Tests. Tests of earnings capability have a twofold purpose--to indicate probable recovery and to show when disability benefits could cease without causing hardships. While work or earnings tests are designed to reduce program expenditures by eliminating benefits to recovered persons, a poorly designed work test can cost money if many beneficiaries are discouraged from working.

Work tests can discourage disabled beneficiaries from working at all, because they fear loss or reduction in cash and medical benefits, while the "notch" level, or level of earnings allowed before benefits are eliminated, can encourage beneficiaries to limit their work effort to the allowable amount. For example, the substantial gainful activity (SGA) level in SSDI is the amount of earnings above which a disabled beneficiary is considered to be recovered--about $300 per month. After an extended period of time, earnings above this amount will result in termination of benefits and subsequent loss of medical benefits. Hence, a recovering worker may keep earnings below this amount to prevent drastic changes in income, particularly from large out-of-pocket medical expenses.

There are two main reasons why disabled persons may respond in this way to work tests. First, when a program has a work test, beneficiaries' decisions to work involve measuring the loss of disability benefits against the probable or expected gain from earnings. To break even financially, the expected increase in earned income after taxes must be greater than the benefit loss. Second, earnings from available jobs may be lower than past wages, since disabled persons are often unable to return to their pre-disability occupations, and their earnings may not grow as quickly over time as before they were disabled. For these reasons, beneficiaries could find it advantageous to earn less than the work-test amount and remain on the disability rolls where many benefits automatically increase each year with inflation.

High Income Replacement Rates. High income replacement rates and increasing benefit levels in disability compensation programs also reduce the incentives to work. When benefits replace a high proportion of predisability earnings, the gains from working would seem comparatively smaller than if benefits are low. Recent studies of SSDI recipients show that over the last decade measurable decreases in recovery rates coincided with increases in Social Security benefit payments, particularly benefit increases that exceeded increases in wage levels.[24] One study found that among disabled workers with conditions most subject to medical recovery, those with high replacement rates were less likely to leave the disability insurance rolls than those with low replacement rates.[25]

Analyses of labor force participation before and after large increases in benefit levels and expanded program coverage indicate that high benefits may encourage persons to stop working. For example, one study of labor force participation among middle-aged men between 1957 and 1975 positively associated the increase in expected benefits with increases in SSDI participation rates and decreased labor force participation.[26] Other studies have confirmed a significant relationship between the generosity of disability transfers and decreasing labor force participation among older male workers, albeit to varying degrees.[27]

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24. Robert J. Myers, "Actuarial Analysis of Operation of Disability Insurance System Under Social Security Program," appearing in the House Ways and Means Committee, Actuarial Condition of Disability Insurance, 1978, 96:1 (February 1979).

25. Ralph Treitel, "Recovery of Disabled Beneficiaries: A 1975 Followup Study of 1972 Allowances," Social Security Bulletin (April 1979).

26. Jonathan Leonard, The Social Security Disability Program and Labor Force Participation, pp. 12-18. See a further discussion of this study in Appendix C.

27. See Robert H. Haveman and Barbara L. Wolfe, "Have Disability Transfers Caused the Decline in Older Male Labor Force Participation? A Work-Status Rational Choice Model," Institute for Research on Poverty, University of Wisconsin-Madison (October 1981); and Donald Parsons, "The Decline in Male Labor Force Participation," Journal of Political Economy (February 1980).

Additional Factors. Factors influencing the work decisions of a disabled person include the severity of the health problem; the person's sex, age, and education level; family responsibilities; and being able to return to the same employer or having flexible working hours. Many empirical analyses have attempted to describe these factors for different population groups; the results show which demographic or social factors have an effect on work choices, but usually do not measure their importance against each other or against economic incentives. A summary of the important results of some of these analyses is given in Appendix C.

It is not certain to what extent labor market conditions influence work decisions of disabled persons, although discrimination in the workplace has been apparent. Disabled persons are often the first to be laid off and the last rehired in times of economic recession.[28] Moreover, persons with declining health status may opt for disability benefits rather than earned income when the maintenance of a regular job becomes more uncertain or requires more competition with persons in good health.

Recent Efforts to Increase Work Incentives

Over the past six years, many efforts have been made to increase work incentives for disabled beneficiaries. These have included modifications to program provisions thought to cause work disincentives, and the expansion of rehabilitation programs. The former measures will probably help to determine the extent of work disincentives, whereas the latter measures were designed to improve work capabilities and job opportunities.

Modifying Program Provisions. Several measures were enacted by the Disability Amendments of 1980 to counteract the work disincentives of the earnings limitations in the SSDI and SSI programs. These measures included: (1) liberalizing work-expense deductions so that disabled workers' earnings capabilities would

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28. For an extensive discussion of this and of recent attempts to combat discrimination against disabled workers, see Sar A. Levitan and Robert Taggart, Jobs for the Disabled (Johns Hopkins University Press, 1977) and Monroe Berkowitz, "Social Policy and the Disabled: The Main Issues," Social Security and Disability Issues in Policy Research (International Social Security Association, 1981).

not be overstated when they are employed in gainful activities; (2) establishing extended trial work periods within which beneficiaries could be automatically reentitled to benefits after earnings decreased or ability to work ended; (3) extending Medicare coverage to allow recovering SSDI beneficiaries up to four years of coverage after returning to work; and (4) initiating demonstration projects to test different methods for encouraging disabled persons to return to work--for example, providing a tax rate against full SSDI benefits when earnings exceed the SGA level, rather than ending benefits.

Rehabilitation Services. Much attention has been paid recently to the effectiveness of state-federal rehabilitation programs designed to aid SSDI or SSI beneficiaries, but the success of increased rehabilitation efforts in the past has been difficult to ascertain. Some observers have contended that more money has been spent for smaller gains in recovered disability cases than in previous years. For example, between 1970 and 1979 the annual number of participants in the rehabilitation program funded by the Social Security Administration increased almost 170 percent, but the number of rehabilitated persons increased only 43 percent. On the other hand, the number recovering and leaving the rehabilitation rolls has increased each year since 1970, both in absolute numbers and in proportion to the number served.[29]

For those recipients who complete rehabilitation and leave the disability rolls, program savings outweigh the program costs. Recent studies have shown that rehabilitated individuals who terminate SSDI beneficiary status and return to the work force produce savings to the program within ten years after case closure.[30] The same studies also indicate, however, that later costs for those rehabilitated persons returning to the SSDI rolls greatly outweigh the earlier savings that resulted from reduced

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29. See Leo A. McManus, "Evaluation of Disability Insurance Savings Due to Beneficiary Rehabilitation," Social Security Bulletin (February 1981), pp. 19-26.

30. Ibid. The study found savings to the SSDI trust fund ranged from $1.39 to $2.72 for each dollar spent on rehabilitation clients. Another study by GAO produced a smaller savings/cost ratio--$1.15 per dollar spent. See Comptroller General of the United States, "Improvements Needed in Rehabilitating Social Security Disability Insurance Beneficiaries," Report to Congress (May 1976).

benefits and increased tax revenue obtained during their productive work periods.

The most recent change in state-federal rehabilitation services is to reduce federal funding for SSDI and SSI beneficiaries. Until the enactment of Public Law 97-35, the Social Security trust funds financed the costs of rehabilitating disabled beneficiaries (paying about $87 million in fiscal year 1981) as long as they were in a state-operated program subject to Title I of the Rehabilitation Act of 1973. Since September 1981, the trust funds only pay for vocational rehabilitation services in special cases--where the disabled beneficiary completes a continuous nine-month work period, for example.[31] This measure will probably cause more targeting of resources on those most likely to become rehabilitated, but the effect may be the elimination of services to many SSDI beneficiaries, since state funds may be limited.

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31. The Disability Amendments of 1982 (H.R. 6181), a bill reported out of the Ways and Means Committee, would provide advance payments from the trust funds to state agencies or private organizations for vocational rehabilitation of disabled beneficiaries and persons terminated from the disability rolls due to recovery, in order to make vocational evaluation and job placement services more readily available.

CHAPTER IV. OPTIONS

This chapter presents options for changing the federal disability programs, designed to meet the problems surveyed in the preceding chapter. It also discusses the probable impacts such changes would have on programs operated by state and local governments and by private organizations.

The options are of two kinds: (1) those that would alter and retarget program coverage, and (2) those that would reduce the benefit levels of some programs. The general approaches are explained before the specific options are described in detail. Other options such as raising welfare benefit levels and changing vocational rehabilitation practices are also discussed, because they address additional concerns about disability compensation and can augment the primary options discussed below.

OPTIONS TO ALTER DISABILITY COVERAGE

Program coverage could be altered by modifying eligibility criteria or by shifting eligibility for benefits from one program to another. The objectives would be to fill gaps in disability coverage, coordinate benefit levels so as to minimize duplication of benefits, or retarget cash benefits on those most disabled or most in need. Broader disability coverage would bring in persons normally lacking coverage under current programs--for example, government employees nonvested in the civil service retirement system. Retargeting benefits would involve either changing the number of persons eligible for specific benefits, often reducing total benefits for many, or eliminating benefits for whole groups--such as those with minor impairments. The goal of altering or targeting benefits in this manner would be to make sure that limited resources go to those most in need.

Options that alter or retarget disability coverage are designed to improve the adequacy or the effectiveness of disability compensation programs. Alternative ways of accomplishing these goals include:

- Adopting SSDI coverage for all workers;

- o Consolidating certain federal disability programs, particularly SSI and veterans' pensions; and

- o Retargeting veterans' benefits on the most disabled veterans by eliminating payments to those with low-rated disabilities.

Adopting Universal Disability Coverage Under Social Security

This option would extend disability coverage to all workers and thereby expand the number of totally disabled workers eligible for disability income. Under this plan, Social Security disability taxes would be paid by an additional 10 percent of those employed--roughly 10 million persons--who would then be entitled to disability benefits when they met program requirements. This plan would also eliminate problems of transferring disability coverage when a worker shifts between covered and noncovered jobs--primarily between government and private-sector employment.

This option could use numerous ways to integrate benefits when a person is covered by more than one program. For example, it could make use of program offsets similar to those of private pensions. Such provisions allow a combined benefit of 60 to 80 percent of predisability earnings. Current SSDI program provisions that limit combined benefits from public sources might be sufficient for this purpose. For example, combined benefits awarded from both SSDI and civil service disability retirement are limited to 80 percent of average current (predisability) earnings.

Extending Social Security coverage would affect mainly employees not currently covered by Social Security in federal, state, and local government, and in some nonprofit organizations. Almost all federal workers and about 25 percent of state and local government employees are not now covered by Social Security (see Chapter III); in 1983, these employees and their employers would together contribute 1.65 percent of taxable earnings to the Disability Insurance Trust Fund. Currently, about 55 percent of federal employees nonvested in the civil service retirement system are under age 30; although many of these workers already have some Social Security coverage, about 200,000 federal workers could become newly insured for disability within five years under this option.

The costs of implementing this proposal would be completely offset by increased Social Security tax revenues from workers who are not now covered. Although few data exist on disability incidence rates among the noncovered population, historical disability incidence rates among workers newly insured after two years under SSDI would indicate that initial costs for this program would be less than $50 million in 1985, if implemented in 1983. Benefit costs in the later years would be considerably higher, since more persons would be eligible for benefits. Increased tax revenues in 1985 could be $1.9 billion, however. Net revenue increases would total $9.0 billion in 1983 through 1987.[1]

A problem with the option is that many workers required to pay the tax would get little coverage beyond what they have now under other programs, such as civil service retirement. Also it would not significantly affect the large number of persons currently covered by SSDI who, because of health problems, often must form loose attachments to the labor force and subsequently lose insured status. Some have suggested that an easing of vesting or insurability rules or relaxation of the criteria for eligibility for SSI benefits would better meet the goals of universal coverage. Such alternatives could lead to serious work incentive problems, however, since some temporarily disabled persons would have economic incentives to continue receiving disability benefits rather than returning to work.

Consolidating Federal Programs

Federal programs that have similar objectives and benefit schemes, but are administered as separate programs, often serving the same group of persons, could be consolidated to improve their efficiency and effectiveness. For example, the military and civil service disability retirement programs have considerable overlap--that is, similar requirements and benefit formulas; veterans' compensation and military disability retirement programs serve persons with the same background--those with active military service; and SSDI and civil service disability and railroad retirement programs have similar objectives. One example of

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1. Estimates of increased revenue represent budget receipts and do not include payments from the federal government as the employer. Revenue estimates were derived by Ken Sander of the Office of Research and Statistics, Social Security Administration.

consolidating federal programs is given below: that of replacing veterans' pensions with SSI.

Phase Out Veterans' Pension Benefits. Federal disability expenditures could be retargeted and reduced by phasing out and eventually eliminating veterans' disability pensions, which essentially overlap SSI coverage. Veterans' pension benefits are available to needy veterans of wartime service whose disabilities are not service-connected and who are either totally and permanently disabled or age 65 or older. Almost 50 percent of veterans receiving pensions now qualify on the basis of age. Surviving spouses and children of war veterans are also eligible for means-tested pensions--about two-thirds of the benefit levels for veterans--but they are not required to be disabled or aged. SSI is provided to needy disabled and aged persons, but SSI benefits are not available to their dependents or survivors unless they are also aged or disabled. Benefit levels under SSI are, in most cases, lower than those available from veterans' pensions.

This option would consolidate the two programs under SSI provisions. Veterans and all survivors who are currently on the rolls would maintain their current pension benefits, but new applicants would apply for SSI instead of veterans' pensions.

Consolidating veterans' pensions with SSI would save both administrative and cash benefit costs. Gross savings would amount to about $220 million in 1983, but would be offset by about $120 million in expenditures from SSI and other welfare programs, leaving a net savings of $100 million. Net savings in 1983-1987 could reach $6.5 billion, however.

The primary advantage of implementing this proposal is that it would consolidate two programs with similar goals serving similar populations, but target their benefits on the most needy. Proponents suggest that the benefit guarantee level in the SSI program adequately assists true welfare cases and that the same benefits should be provided to all needy persons, regardless of past military service. It is argued that if a higher standard of need is considered for poor veterans, then perhaps it should be extended to all poor disabled persons. For example, SSI benefits could be raised to poverty levels to improve benefits for all those under the consolidated program. (See a discussion of this option later in this chapter.)

Opponents of this proposal argue that the veterans' pension is a payment owed to wartime veterans for services rendered, and

that veterans should be provided income assistance greater than the level available under SSI. Although veterans may receive pensions for non-service-connected disabilities, opponents suggest that such veterans were reduced to the level of need because they were unable to pursue more lucrative careers while in service.

Retargeting Veterans' Benefits on the Most Disabled[2]

This option would eliminate periodic benefits now paid to some partially disabled persons under a different program for veterans--the Veterans' Service-Connected Disability Compensation program. It would continue benefits only to those who were determined to be at least 30 percent disabled and therefore presumed to have lost at least 30 percent of their earning capacity. Those veterans with lesser disabilities--that is, with minor medical problems such as flat feet or an amputated finger--would remain registered with the Veterans Administration as service-disabled, continue receiving medical or hospital benefits, and receive cash benefits later if their disabilities worsen.

This option would eliminate nearly 1.3 million persons, or 56 percent of veteran beneficiaries, from veterans' compensation rolls in 1983.[3] Savings from applying this option would be $1.2 billion in 1983 and about $7.4 billion through 1987.

It is doubtful that low-rated disabilities actually cause large reductions in earning capacities, and therefore justify long-term periodic benefits. Whether earning capacity is lost

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2. Under current law, additional dependents' allowances are paid to veterans with disabilities rated as low as 30 percent. The President's 1983 budget proposed eliminating dependents' benefits for those veterans with disability ratings below 50 percent. That measure would produce smaller savings--$146 million in 1983--than the option discussed here and it would not affect benefits to 10- or 20-percent disabled veterans.

3. At the end of September 1981, about 44 percent of veteran beneficiaries on the rolls of Veterans' Service-Connected Disability Compensation were classified as having combined disability ratings of 30 percent or higher. About 6 percent or 135,000 veterans were rated 100 percent disabled.

may be less important, however, than providing some compensation for illness or injury incurred while in service. Veterans' compensation payments are considered by some to be indemnity payments.

OPTIONS TO REDUCE BENEFIT LEVELS

One way to control expenditures for disability programs would be to reduce benefit levels. Proponents see this as a means of reducing expenditures, improving work incentives, and, in many cases, providing similar treatment for disabled persons in different programs. Lower benefit levels would conserve scarce resources--which is especially important in a time of federal budget stringency--and would encourage temporarily disabled persons to seek employment (see Chapter III).

Disability expenditures could be reduced by adopting an across-the-board cut in program benefits. A reduction in cost-of-living adjustments (COLAs) would exemplify this type of strategy.[4] This approach would reduce expenditures by affecting all beneficiaries in a similar way, whereas additional caps on total benefits would affect some program beneficiaries--those with the highest benefits now--more than others.

Options to reduce disability benefits often redefine or place a ceiling on the portion of predisability income that benefits will replace. The Disability Amendments of 1980, for example, established a special cap on family benefit levels for new SSDI awards. The intent of the new law was to prevent benefits from exceeding the family's previous after-tax income--in this case, about 85 percent of pre-tax, average earnings.

Alternative methods for reducing disability benefits include:

- Reducing the COLAs for federal program benefits;
- Limiting federal workers' compensation benefits to 80 percent of predisability take-home pay;

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4. Adjustment of the COLA for disability benefits would likely be part of a larger policy change that would also affect other federal programs (Old Age and Survivors' retirement benefits, for example).

- Extending the SSDI megacap on combined payments to include veterans' compensation beneficiaries; and

- Taxing a portion of disability benefits.

Reducing the COLAs for Federal Benefits

One way to reduce federal disability expenditures would be to lower the cost-of-living adjustments (COLAs) for federal benefit payments. Currently, all federal disability benefits are adjusted annually and, except for veterans' compensation and Black Lung Benefits, are automatically indexed by the full increase in the Consumer Price Index (CPI).[4] The CPI adjustments have caused payments to rise faster than wages over the last three years. Because of this, receipt of benefits may be preferred to earned income by some disabled persons who are able to work.

Several different methods of reducing COLAs have been suggested in recent years, all aimed at reducing total program expenditures. Some proposals would reduce COLAs by a fixed percentage--for example, 15 or 33 percent of the increase in the CPI. Other proposals would require COLAs equivalent to the lesser of price or wage increases, although this would not reduce expenditures under current economic projections.[5] One reason to modify the 100-percent change in the CPI for indexing benefits is that the CPI may overstate the increases in the costs of certain items for retired or disabled persons, such as the cost of housing. The Administration has proposed limited COLAs for the federal military and civilian retirement and disability programs in its 1983 budget.

Reducing the COLAs based on the CPI to two-thirds of the increase in the CPI, beginning after July 1982, would save the

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4. Legislated increases in veterans' compensation payments are usually equivalent to increases in Social Security payments, whereas Black Lung benefit increases are tied to federal pay raises. For the specific change in the CPI used to index benefits in particular programs, see Appendix A.

5. See, for example, Congressional Budget Office, Reducing the Federal Deficit: Strategies and Options (February 1982) and Indexing with the Consumer Price Index: Problems and Alternatives (June 1981).

federal government about $540 million in 1983 disability expenditures, for example. Cumulative savings over the next five years would be about $17 billion.

One advantage in cutting the COLAs by one-third for each of the next five years is that it would help to control disability expenditures, while still allowing a substantial adjustment for inflation. In addition, proponents suggest that the two-thirds increase would be adequate additional compensation since disabled workers generally receive tax-free benefits and therefore do not see their incomes erode from inflation as quickly as others who pay taxes on their earnings. On the other hand, it is argued that many benefits are low compared to predisability incomes, so that full CPI indexing helps to combat inadequate disability incomes. For example, some suggest that COLAs for means-tested benefits should not be changed.

Limiting FECA Benefits to 80 Percent of Predisability Take-Home Pay

Another way to reduce program benefit levels would be to limit payments from the federal workers' compensation (FECA) program to 80 percent of the beneficiary's previous take-home pay--that is, to 80 percent of gross pay (earnings) minus federal, state, and local income taxes, as well as Social Security taxes and pension contributions paid in the year before the disability occurred, but adjusted for inflation in later years. In general, this would limit initial payments to about 60 percent of gross predisability earnings. This option was originally offered as a modification to FECA benefits in the Omnibus Reconciliation Act of 1981 and was proposed in the President's original 1983 budget request.[6]

The proposal would affect all FECA beneficiaries, although it would have greater impact upon higher-income federal workers. According to the Department of Labor, higher-income employees--for example, those in grade GS-11 and above positions--including those workers with dependents, typically receive more than 100 percent of take-home pay in benefits. In general, the proposal would cause a 10 to 30 percent reduction in maximum replacement rates for about 49,000 claimants. Net savings would be about $50 million in fiscal year 1983 and $230 million in 1983-1987.

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6. See Congressional Record, daily ed., June 26, 1981, pp. 3773-8. Also, see H.R. 4388--a bill before the 97th Congress.

As a result of this option, federal disability expenditures would be cut without causing significant hardships for disabled persons, since disability pay would still provide adequate benefits compared with previous incomes. Proponents suggest that high-income workers receiving FECA benefits would also be motivated to return to work more quickly than under current provisions since disability income would no longer exceed pre-injury after-tax income and thus be preferred to earned income. Finally, by defining the same limit on total family benefits as individual benefits, more disabled persons would be treated in a similar fashion. It has also been suggested, however, that the proposed reduction in benefits would result in harsh treatment for some severely disabled workers, in order to promote work incentives among temporarily disabled persons.

Extending Limitations on Combined Federal Disability Benefits

This option would extend the megacap--a ceiling on total benefits established by the Omnibus Budget Reconcilation Act of 1981 (Public Law 97-35)--to the veterans' compensation program. To be consistent with the current megacap, combined benefits could be limited to 80 percent of average current (predisability) earnings, which usually reflect highest earnings before disability.

In 1983, the proposal would affect about 3,000 veterans first eligible for SSDI benefits and save about $6 million in that year. Savings would amount to $200 million through 1987. Average benefit reductions per recipient would be about 20 percent of the combined payments based on initial awards.

Extending the megacap to recipients of veterans' compensation would bring about uniform treatment of federal disability beneficiaries. Moreover, proponents suggest that for veterans eligible for both SSDI and the veterans' benefit, the veterans' compensation payment was by itself designed to be adequate compensation, so that the combined SSDI and veterans' compensation benefit is more than adequate by all program standards. Opponents argue that veterans who enlisted or were drafted into the military directly from school often have no predisability earnings record other than their military pay, so that the workers' compensation offset might not be as appropriate for them as it would be for civilian workers.

Additionally, the 1981 megacap could be extended to cover current beneficiaries and therefore bring about uniform treatment of current and future beneficiaries, as well as much larger budgetary savings. Although the megacap establishes what may be considered an adequate benefit level, some would oppose reducing benefits to current recipients regardless of their receiving duplicative payments.

Taxing a Portion of Disability Benefits

Federal and state disability benefits are usually not subject to taxation. Social Security benefits, workers' compensation, veteran's benefits, and means-tested program benefits are not taxed at all. A totally and permanently disabled recipient of a disability annuity may, however, be taxed on the disability retirement pay beyond an exclusion amount,[7] although this amount is large enough that it prevents most disability benefits from being taxed. Taxing benefits from some programs, but not others, means that some persons who are identically impaired may be treated differently.

One way to reduce work disincentives resulting from tax-free benefits would be to tax a portion, such as half, of disability benefits, but exclude all means-tested payments. Taxing all of disability income would equate cash benefits to earnings. By including only 50 percent of disability cash assistance in taxable income, recognition is made of the difference between the two types of incomes, in part because disability benefits are generally far lower than previous earnings, and in part because some beneficiaries have already contributed a small portion of their previous after-tax earnings to pay for disability benefits.

Beneficiaries with incomes other than their disability benefits would probably pay increased taxes under this proposal, whereas those whose benefits represent their only source of income would probably not. If one-half of SSDI and workers' compensation

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7. If the taxpayer's adjusted gross income, before the exclusion, exceeds $15,000, the excess reduces the exclusion amount dollar-for-dollar. Only a portion of military disability benefits--the part that exceeds the amount determined by the disability rating times base pay--is subject to federal income taxes.

benefits were taxed in this manner, less than 10 percent of disabled beneficiaries would probably have to pay taxes due solely to the new requirement, although most new taxpayers would have taxable incomes of $10,000 or less; the average increase in taxes per family paying 1983 taxes would be abo $240. If all nonwelfare disability benefits were taxed in this manner, tax revenues would increase by $1.8 billion in 1983 and $14 billion in 1983-1987.

The goal of taxing disability benefits rather than reducing benefits across-the-board is to target high benefits on those most in need. Moreover, the general tax-free status of disability benefits promotes work disincentives by increasing the value of benefits. High cumulative benefits that are tax-free may exceed after-tax earned income, so that disabled persons who are able to work are discouraged from doing so. On the other hand, some persons might be induced to sacrifice other family income, such as earnings of other family members, if benefits were taxed.

Opponents argue that most programs already take the tax-free status into account when benefit levels are determined. But this does not hold for combined benefits from nonintegrated programs, such as SSDI combined with veterans' compensation. Others suggest that instead of this option, only benefits beyond an exclusion amount--similar to the current requirement for public and private disability annuities--should be subject to the tax. In this manner, benefits for about three-fourths of beneficiaries--those with taxable incomes below $15,000--would not be taxed.

OTHER OPTIONS

To improve the adequacy or efficiency of benefits to disabled persons and improve the chances for recovery among many disabled workers, three additional options are considered:

- Raising the SSI guarantee level;
- Imposing stricter definitions of total disability in federal programs; and
- Improving and expanding vocational rehabilitation services.

Although these options can be considered apart from those reviewed earlier in this chapter, they may be looked upon as ways of improving or augmenting options discussed earlier. For example, SSI payment levels could be raised at the same time veterans' pensions and SSI were consolidated.

Raising SSI Benefits

SSI payment levels for individuals could be raised to 80 percent of the national poverty level, thereby improving the adequacy of benefits for most SSI recipients. After June 1982, the federal payment level for individuals living independently with no countable income is 73 percent of the poverty level, but 82 percent for couples. Those who also receive Social Security benefits and food stamps can have incomes equal to about 87 percent (100 percent for couples) of poverty thresholds. Total income for most recipients, however, remains low relative to poverty thresholds for a number of reasons: less than 4 percent of federal SSI recipients have earned income; about 40 percent do not receive other unearned income; and less than half get state supplementation.

If the federal SSI guarantee for individuals was raised to 80 percent of poverty levels in 1983, maximum benefits for individuals, particularly those living in states that do not provide supplements, would increase about $28 per month, costing the federal government about $1.3 billion in that year.

Along with providing higher benefits to those most in need, this option would make benefits to single persons comparable to those of couples. Some would oppose this option because of its costs or because couples' benefits would not rise relative to current levels or the poverty threshold.

Alternatively, SSI benefit levels for both individuals and couples could be raised to the poverty levels, costing considerably more in 1983 outlays.[8] Besides raising the standard of

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8. The costs would be high--about $4 billion in 1982 dollars--since about 25 percent of those not currently receiving SSI, but with countable income below poverty levels, would probably begin to participate in the program. Additional costs to the Medicaid program from increased eligibility would be roughly offset by reductions in costs of food stamps to SSI (continued)

living for poor disabled persons, this option would also provide benefits closer to veterans' pensions or average SSDI benefits. It would also provide some fiscal relief to states. The main drawbacks of the proposal are its high costs and the possibility that higher benefit levels might reduce some disabled persons' incentives to work.

Imposing Stricter Definitions of Disability

Another general option for changing federal disability programs is to impose stricter requirements for disability determinations. In programs that currently have occupational definitions of total disability--requiring only that the disabled person be unable to do the same type of work as before disability, a new definition patterned after the SSDI definition could be used. This would make eligibility for nonwork-related disability benefits more uniform and cause similar treatment for similarly disabled persons. It would, in addition, target benefits on the most disabled.

Programs that would be affected by a stricter definition of disability would include veterans' compensation (for total disability) and the civil service, military, and railroad disability retirement programs. In 1983, the new standards for disability determinations would be applied to more than 30,000 disability applicants.

Those opposed to stricter definitions argue that the current requirements are already strict enough, since most applicants are required to be totally disabled for useful and efficient work. Moreover, they suggest that the SSDI definition would be met by all but a few persons for whom work at any job in the national

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8. (continued)
recipients. Because 25 states and the District of Columbia provide optional supplementation to federal SSI payments, raising the federal guarantee would result in fiscal relief to states currently paying above the federal level (California, Connecticut, and Massachusetts, for example), as well as to states paying below that level, unless legislation was enacted to require total payments to rise in a passthrough fashion. Federal SSI payment costs from raising the guarantee to poverty levels were estimated by Michael Staren of the Social Security Administration.

economy would cause extreme hardships. Others suggest that less strict definitions be used in all programs, but that benefits be awarded for only a temporary period--for example, three years for total disabilities.

Alternatively, definitions of disability in the SSDI or SSI program could be made stricter still--options proposed by the Administration in its May 1981 budget initiatives and its 1983 budget.[9] Stricter definitions would require more severe or lengthy disability prognoses than under current provisions. For example, less consideration, if any, could be given to vocational factors than under current provisions. The rationale for such proposals is that they would limit benefits to the most severely disabled--those permanently disabled due to medically determined problems. At the same time, proponents allege that the stricter definitions would simplify administrative determinations of disability and make these procedures more uniform.

Opponents of stricter disability definitions in SSDI and SSI believe that it is impossible to determine with accuracy whether or not a person can work on the basis of medical characteristics alone. Also, such proposals would disproportionately affect elderly persons who have total, work-limiting disabilities.

Improving and Retargeting Vocational Rehabilitation

Improving vocational rehabilitation programs is an alternative method for helping to overcome existing problems within the disability system--that is, increasing expenditures and work disincentives. Rehabilitation programs operate on the premise that money is invested now for expected returns later; hence, the more successful these programs, the greater the returns--reduced disability expenditures and more productive, though disabled, workers.

The cost of implementing specific rehabilitation services, however, has a major impact on policy decisions. In past years, the costs per recipient served have increased in proportion to the number and type of services offered. For example, it costs more

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9. See an analysis of these and other Administration proposals in David Koitz, Social Security: Disability Budget and Financing Proposals, Congressional Research Service, IB81110 (September 1981).

to educate or retrain persons than to provide only assistance in the use of prosthetic devices. Many disabled workers who receive rehabilitation services are given only medical services and are not retrained to obtain new jobs that would accommodate their handicaps.[10] Also, more education and retraining of severely disabled beneficiaries may prepare some for jobs that are not readily available except in sheltered workshops, and hence make their gainful employment less likely.[11]

Expanding and improving job placement services could cause reductions in both federal and state costs. Moreover, a greater emphasis on early job placement could result in renewed work effort.

While expanding job placement activities in state or private rehabilitation programs might discover more jobs for disabled persons, better targeting of vocational services might also be required in order to develop more savings from the program. The objective of targeting rehabilitation services on certain disabled persons is to provide the most cost-effective operation of the programs. Benefits to disabled persons and to society in terms of added productivity and increased earnings and tax revenues could be generated by selecting those most likely to recover and profit from rehabilitation services and intensifying efforts in their direction. Assuming this could be done, two alternative target groups for expanded vocational rehabilitation would be: older, experienced workers and partially disabled persons.

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10. Rehabilitation Services Administration, "Characteristics of Persons Rehabilitated in Fiscal Year 1979, State-Federal Program of Vocational Rehabilitation," unpublished paper, 1980. In 1979, about 65 percent of an active caseload of only 445,000 persons were rehabilitated; about 14 percent of these rehabilitated cases were rehabilitated as homemakers.

11. For more discussion, see Sar A. Levitan and Robert Taggart, Jobs for the Disabled (Johns Hopkins University Press, 1977), pp. 64-68; and Aaron Krute and Ralph Treitel, "Reintegration of the Severely Disabled into the Work Force: The United States Experience," Social Security Disability Issues in Policy Research (Geneva: International Social Security Association, 1981), p. 121.

Older, Experienced Workers. Vocational rehabilitation services to older workers could encourage them to remain in the work force. Proponents suggest that such services would especially be needed in future years, particularly if the normal retirement age was raised to age 68. Promoting the retraining of older persons--for example, those between ages 50 and 55--could extend their working careers by 10 or 15 years. Moreover, older disabled workers often already have skills or work attitudes that enable them to work at other jobs after retraining. Opponents argue that the probability of returning to the disability rolls is greater for older workers and that it is often difficult to find jobs for older workers in tight labor markets; therefore, for them the costs of rehabilitation might outweigh the savings.

Partially Disabled Persons. Expanded services could be targeted toward a higher portion of partially or occupationally disabled persons. By doing so, those with gradually worsening impairments could be retrained much earlier for new occupations that would allow them to work while impaired. Often partially disabled persons are unable to return to former jobs or to find more suitable jobs quickly.

Proponents suggest that the degree to which partially disabled persons are being rehabilitated today could be expanded so that most partially disabled persons could become self-supporting. Since partially disabled persons--for example, those who have suffered work-limiting back injuries--maintain a large amount of functional capability, such persons are likely to return to work if they are given limited medical and vocational services. Those opposed to expanding services for partially disabled persons suggest that it would diminish rehabilitation services for the totally disabled--those most in need of assistance--while many partially disabled persons can return to work without rehabilitation services, although the process may be slow.

APPENDIX A. BRIEF DESCRIPTIONS OF BASIC PROVISIONS OF MAJOR FEDERAL DISABILITY PROGRAMS

APPENDIX A. BASIC PROVISIONS OF MAJOR FEDERAL DISABILITY PROGRAMS

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
		Social Security Disability Insurance (SSDI)	
Eligibility: Must be fully insured under Social Security and must have 20 quarters of coverage during the 40 quarters before disability if age 31 or older. Fewer (but at least six) quarters of coverage are required of younger workers. A waiting period of 5 months is required. Definition: Inability to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment expected to result in death or last for a continuous period of not less than 12 months. Termination: Period of gainful employment, recovery from disability, or attainment of age 65 (when benefits are converted to retirement benefits).	Benefit: Average Indexed Monthly Earnings (AIME) are computed over years after 1950 or age 21, if later, and before the disability, less allowable (a maximum of 5) years of lowest earnings. The Primary Insurance Amount (PIA or worker benefit) in 1981 set at 90% of first $211 of AIME + 32% of next $1,063 of AIME + 15% of rest of AIME. Family Benefit: Additional 50% of PIA for each qualifying dependent with total benefit for worker and family limited by smaller of 150% of PIA and 85% of AIME. The benefit cannot be less than 100% of the PIA described above, however.	Average Worker Benefits: In September 1981, the average worker benefit was $414 per month. Average Family Benefit: An estimated $802 per month at the end of 1981 for a disabled worker with spouse under age 65 and one or more children. Cost-of-Living Adjustments: Once a year, based on Consumer Price Index (CPI) change for first quarter over first quarter of previous year (provided the change is greater than 3%).	Combined benefits from SSDI and certain other disability programs are reduced if they exceed 80% of average current earnings, unless the other program reduces benefits for receipt of SSDI. Combined benefits cannot be reduced below the amount of the total SSDI benefit, however. Means-tested benefits, veterans' benefits, government pensions based on Social Security covered employment, and disability benefits received under a private plan are excluded from this offset provision.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
	Veterans' Disability Compensation		
Eligibility: Honorably discharged from service and having an impairment incurred in or aggravated in the line of duty. Definition: A service-connected impairment causing a partial or total (100%) disability rating. The rating represents the average loss in earnings capacity. Termination: A review of cases with 10% or less disability rating can result in terminations after medical recovery.	Benefit: Payments are rated by the severity of disability and, in October 1981, range from $58 per month for 10% disability to $1,130 per month for total disability. Additional benefits for multiple injuries or special needs can bring benefits up to $3,223 per month. Family Benefits: Preset amounts added to veterans benefit, provided veteran has a disability rating of at least 30%. A total disability payment, for example, would include $116 per month for wife and dependent child in October 1981.	Average Benefit: In fiscal year 1981, average benefit to veteran was $254 per month; average benefit to survivors was $359 per month. Cost-of-Living Adjustments: Annual adjustment is set by legislation.	Military disability retirement benefits cannot be received concurrently.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
	Civil Service Disability Retirement (CS)		
Eligibility: Must have completed 5 years of service and become disabled while employed. Eligible persons include civilian officers or employees under the executive, legislative, or judicial branches of federal government, the District of Columbia, and Gallaudet College, except for certain employees excluded by law such as the President, federal judges, and certain temporary employees. Definition: Totally disabled for useful or efficient service in current position or any other vacant position of the same grade level in the same agency in the same competitive area. Termination: Medical recovery, restoration of earnings for two consecutive years.	Benefit: Set at larger of: minimum guarantee of lesser of (1) 40% of average of highest 3 consecutive years of salary (high-3) or (2) high-3 times 1-1/2% for each of 5 years of service + 1-3/4% for each of next 5 years of service + 2% for each year thereafter projected to age 60; and regular annuity based on (2) for actual number of years in service. Benefit is subject to a maximum of 80% of the high-3 salary.	Average Benefit: $753 per month in fiscal year 1981. Cost-of-Living Adjustments: Once a year based on the CPI change for December to December.	Cannot concurrently receive federal Workers' Compensation benefits for the same disability.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
	Military Disability Retirement		
Eligibility: Must be a member of the Armed Services on active duty and have (1) 8 years of service; (2) a disability resulting from active duty; or (3) a disability that occurred in line of duty during a time of war or national emergency. Definition: Disability rating of 30% or more. Must be permanently disabled for lifetime benefits. Temporary disability status may be awarded on an 18-month basis for up to 5 years, when a final determination is made. Termination: Recovery from temporary disability.	Benefit: Set at larger of (1) Percentage disability rating times base pay or (2) 2.5% times the number of years of service times base pay. The benefit is subject to a maximum of 75% of base pay, and, for temporary retirement, a minimum of 50% of base pay. Base pay is basic pay in the last grade or the average of the highest 3 years of basic pay if service began after September 8, 1980.	Average Benefit: $745 per month in fiscal year 1981. Cost-of-Living Adjustments: Once a year based on the CPI change for December to December.	Military disability cannot be received concurrently with civil service disability benefits unless the disability is a result of war activities.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
		Black Lung Benefits	
Eligibility: Must have worked in the nation's coal mines. Definition: Totally disabled by black lung disease due to employment in underground or surface mines and unable to work as a miner or in similar capacity. Termination: Return to work as a miner or in same capacity as before disability.	Benefit: 37.5% of federal salary at GS-2 grade level, step 1. Family Benefits: Increased by 50% for one dependent, 75% for two dependents, and 100% for three or more dependents. As under the Social Security retirement test, benefits are reduced by 50% of earned income in excess of about $370 per month for persons under age 65.	Basic Benefit: In October 1981, $293.20 per month for a primary beneficiary. Cost-of-Living Adjustments: Benefits are increased when federal pay increases.	Black lung benefits are reduced for receipt of workers' compensation payments or state disability benefits for black lung disease.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Federal Employees' Compensation Act (FECA) Benefits			
Eligibility: Federal employees disabled from work-related causes (or their survivors). A 3-day waiting period is required for periodic cash benefits, unless the disability lasts more than 14 days beyond a 45-day continuation-of-regular-pay period. Definition: Total or partial disability for gainful employment. Termination: Recovery or return to work at full earning capacity.	Benefit: For total disability, set at 2/3 of regular pay; 75% of regular pay when there are dependents. Payments are subject to a minimum of 75% of grade GS-2 pay (unless total wages are less) and a maximum of 75% of highest grade GS-15 pay. For partial disability, compensation is based on loss of wage-earning capacity. Schedule Payment: Payment equals cash benefit for a number of weeks based on loss of body member(s).	Average Benefit: $923 per month in fiscal year 1980. Cost-of-Living Adjustments: Once a year based on the CPI change for December to December.	Cannot receive civil service disability or veterans' compensation payments concurrently for the same disability.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
	Railroad Disability Retirement Benefits		
Eligibility: Disabled after 10 or more years of railroad service. Definition: Permanent and total disability condition that prevents regular employment of any kind. Workers age 60 and over or workers with 20 years of service and recent connection with the railroad industry, must be unable to perform their regular railroad jobs. Disability is defined as a condition expected to last at least a year. Termination: Recovery or return to work.	Benefit: Set at the sum of 4 components: (1) Tier I is roughly equivalent to the SSDI benefit over railroad and other Social Security covered employment. (2) Tier II Railroad Retirement pension is based on railroad service and is approximately 0.7% of average of 60 months of highest earnings multiplied by the number of years of service. (3) Additional "windfall benefits" and (4) supplemental annuities are paid to persons meeting special service criteria.	Average Benefit: $476 monthly in August 1980. Cost-of-Living Adjustments: Once a year adjustment to the first component of benefit, based on the CPI change (first quarter over first quarter). Tier II benefit increase is 32.5% of the corresponding CPI change.	Tier I benefits are reduced for receipt of Social Security benefits based on nonrailroad employment. Tier II benefits are reduced for receipt of other railroad annuity or pension benefits.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Supplementary Security Income (SSI) for Disability			
Eligibility: Under age 65 and having income and resources that are less than prescribed amounts. Definition: Determined as blind or unable to engage in substantial gainful activity due to a medically determined impairment expected to result in death or last for at least 12 months. Termination: Recovery or receipt of other income in excess of prescribed amounts. (For the next 3 years, some SSI recipients, as part of a demonstration project, may continue to receive special cash benefits while earning more than prescribed amounts.)	Federal SSI Benefit: Set at the basic benefit minus all countable income. Living in another's household reduces the regular guarantee by one-third. Benefit levels for children and for adults living with ineligible spouses are based on special "deeming" of household income. Exclusions: Excluded from countable income are impairment related work expenses, earned income or unearned income of $20 per month, and $65 per month of earned income plus 1/2 of remaining earned income.	Basic Benefit: In July 1981, single guarantee was $264.70 per month; couple guarantee was $397 per month. A maximum monthly payment of $25 is paid to institutionalized persons who receive more than 50% of the cost of their care from the Medicaid program. Cost-of-Living Adjustments: Basic payment is raised once a year based on the CPI change (first quarter over first quarter).	All other benefits are offset except state or local assistance based on need.

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
	Veterans' Non-Service-Connected Pensions		
Eligibility: Veterans with 90 days or more wartime service or wartime veterans age 65 or older--with income and net worth below a qualifying level. Veterans must be discharged under honorable conditions. Definition: Needy veterans under age 65 must be permanently and totally disabled or permanently disabled so that an average person would be unable to follow a substantially gainful occupation. Termination: Annual qualification for benefits is required.	Benefit: Preset basic benefit amounts are reduced dollar-for-dollar in relation to other countable income. Excludions: Excluded from countable income are certain resources which are for medical or educational expenses. A dependent child's income below that requiring an income tax return is also excluded.	Basic Benefit: In July 1981, guarantee of about $4,960 per year for singles or, if married with dependents, $6,499 plus $840 for each additional dependent in excess of one. Cost-of-Living Adjustments: Basic benefit is raised once a year based on the CPI change for first quarter over first quarter of previous calendar year.	Reductions in benefits received from other programs except when the other program reduces benefits for receipt of a veterans' pension (SSI, for example).

APPENDIX B. PRIVATE DISABILITY PROGRAMS

There are three principal types of private disability programs: pensions with an option to retire on disability; employer- or association-sponsored disability insurance; and individually-purchased disability insurance. Private pensions operate in much the same way as Social Security--eligibility for disability compensation or benefits requires a certain number of years of employment and participation in the program; benefits are usually accumulated account values or accrued benefits, or may be deferred until normal retirement.[1] Employer-sponsored disability insurance is usually provided to all employees, but benefits are based on longevity and salary level. Individuals often purchase their own disability insurance from private insurance companies; benefits are determined at the time of insurance purchase, but often are limited to a fraction of current earnings.

Disability coverage in the private sector has grown rapidly since the mid-1960s. Since about 1910, many large companies, unions, and associations have provided life insurance, accidental death and dismemberment insurance, and other employee disability benefits through private insurance carriers. This coverage has been supplemented in recent years by an increase in the number of private pension plans offering disability retirement options. Today, almost all corporate pension plans include provisions for disability retirement with age and length of service as the primary eligibility criteria; most of these plans pay benefits at the fully-accrued pension benefit level.[2] Private long-term

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1. Health Insurance Association of America, Compensation Systems, p. 30.

2. William J. Mischo, Sook-Kuen Chang, and Eugene P. Kaston, Corporate Pension Plan Study: A Guide to the 1980's (Bankers Trust Company, 1981). According to a survey by the Bureau of the Census, about 60 percent of the 60 million full-time wage and salary workers in private industry had pension coverage in May 1979 and about 30 million of these workers met the formal participation requirements; approximately two-thirds of these persons also have long-term disability coverage under the private plans. See U.S. Depart-

disability insurance began about 1965 when annual expenditures were about $7 million; current expenditures are estimated at $600 million.[3]

Continuing issues concerning private disability programs are the amount of overlap or interaction with public programs, the resulting adequacy of benefits to low-income workers, and cost-of-living adjustments. Private pensions are often designed as supplementary benefits, since all workers are assumed to be eligible for Social Security. Private pension plans that relate their benefit formulas to Social Security benefits are called "integrated" private pensions. About 60 percent of 400,000 active private pensions are estimated to be integrated.[4] Integrated private pension plans must conform to Internal Revenue Service (IRS) guidelines, which are intended to prevent discrimination in favor of high-salaried employees, stockholders, or corporate officers. Since Social Security benefits are weighted to provide higher wage-replacement rates to lower-income workers, IRS guidelines allow integrated plans to tilt their benefit formulas in favor of higher income workers--up to a maximum level.

Pensions have increased generally since 1975 and are replacing higher levels of previous wages for low-income workers. In the Bankers Trust Company studies, for example, between 1975 and 1980, replacement rates from combined SSDI and corporate pension benefits increased from 68 and 57 percent to 85 and 73 percent for employees earning $9,000 and $15,000, respectively, in their last year of work.[5] Current trends toward more noncontributory pension plans and disability compensation based on final pay should also benefit lower-income workers.

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2. (continued)
ment of Labor, Patterns of Worker Coverage by Private Pension Plans (1980).

3. Jonathan Sunshine, Disability, Working paper for the President's Commission on Pension Policy (August 1980), Table 1.

4. Ray Schmitt, "Integrated Pension Plans: An Analysis of Earnings Replacement," Social Security and Pensions: Programs of Equity and Security, Special Study of the Joint Economic Committee, U.S. Congress (December 1980).

5. Mischo and others, Corporate Pension Plan Study, p. 7.

Unlike most public disability benefits, private program benefits are seldom automatically increased in later years by cost-of-living adjustments. Although specific increases to some pensions have been made in recent years, they have generally not been sufficient to counter the inflation-induced decline in real benefits. Recipients of both SSDI and a private disability program's benefits therefore receive automatic increments in only one part of their disability income; the SSDI benefit becomes a larger part of the disability payment than when initially awarded. Those who receive only pension benefits see their disability income erode even more quickly over time.

APPENDIX C. MODELS OF WORK BEHAVIOR AMONG DISABLED PERSONS

This appendix reviews two studies of work behavior among disabled persons. The first, conducted by the Social Security Administration, determines some demographic and economic factors influencing work behavior. The second, a working paper published by the National Bureau of Economic Research, estimates the effect of increasing SSDI benefit levels on SSDI beneficiary status among middle-aged men.

SSA Model

The SSA study found several factors to have an independent influence on work behavior among those who report being unable to work at all or work regularly.[1] The logit regression analyses of 1972 and 1974 survey data found that self-perceived severely disabled persons were more likely to work if they were male, had less severe health problems, had attained a higher level of education, were not receiving public income maintenance payments, or needed to help relatives financially.[2] The results imply that the financial demands on some disabled persons, or expectations of them, can induce even severely disabled persons to work. Also, those persons surveyed who had previously been employed for four or more years were more likely to be working than others. Having had lengthy attachment to the labor force or having been able to return to a familiar job also significantly affected positive work patterns.

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1. Evan S. Schechter, "Commitment to Work and the Self-Perception of Disability," Social Security Bulletin (June 1981), pp. 22-30.

2. These results were obtained while holding constant the effects of other factors such as age, race, family size, marital status, and the change to increased work activity among spouses. Schechter notes that in order for the analysis to be "properly comprehensive," economic variables such as amount of family income, net worth, and earnings of a working spouse should be included in the model as predictor variables. Nonresponse rates of 20 to 40 percent, however, prevented the inclusion of such variables in the analysis.

The results do not show that mere receipt of public benefits is a serious work disincentive. Although the receipt of benefits from public programs in both 1972 and 1974 was significantly associated with not working in those years, receipt of benefits only in 1972 was not significantly associated with an increase in work effort in 1974, nor was receipt of benefits only in 1974 associated with not working in 1974. In addition, the ability to work at a familiar job, perhaps their previous occupation, could have prevented some severely disabled persons from receiving public income maintenance payments.

The SSA analysis reported above does not take into account, however, other important economic factors. These include, for example, the effect of disabled persons' predisability income and type of occupation, possible rehabilitation services available to the disabled respondents, and the effects of earnings limitations or work status requirements for benefit eligibility in some public programs. Men and women with similar previous incomes or occupations could have similar incentives to work. Also, those who have received retraining or education may be more likely to work at some jobs than those who have not been rehabilitated. Data limitations prevented testing these hypotheses, however.

A CBO analysis of the 1978 disability survey, that expected to make use of additional income data for recently disabled persons, was limited by the large degree of nonreporting of predisability earnings of working survey respondents. Consequently, some factors--such as age, sex, education, and length of predisability employment--that were found to be associated with increased work effort may actually have reflected differences in income levels or other factors that could not be measured. Nonetheless, it appears that the work behavior of disabled individuals continues to be influenced by some of the same factors as were found in the earlier studies.

NBER Model

The Leonard analysis attempts to show the work disincentive effects of SSDI program provisions.[3] The author describes his

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3. Jonathan S. Leonard, The Social Security Disability Program and Labor Force Participation, Working Paper no. 392, National Bureau of Economic Research, Inc. (August 1979).

results as showing that the liberalization of SSDI eligibility requirements and the increases in SSDI benefits relative to potential labor market earnings did in fact cause more men to drop out of the labor force between 1957 and 1975 and become SSDI beneficiaries. The results were based on a sample of men aged 45 to 54. The sample was drawn from the 1972 Social Security Disability survey that was augmented by beneficiary and earnings history data from administrative records.

Leonard estimated a cross-sectional logistic model and found the probability of being an SSDI beneficiary strongly responsive to expected benefits. A $180 increase in annual benefits was found to cause a one-percentage-point increase in the proportion of SSDI beneficiaries in the population. In addition, the probability of SSDI beneficiary status was found to decrease sharply when past wages were at or above the ceiling on Social Security taxable earnings.

Next, Leonard applied the cross-section coefficients to changes in the variables over time, thereby explaining one-half of the increase in SSDI beneficiaries and about half the decline in labor force participation rates (LFPR) from 1957 to 1975. Macroeconomic factors such as the unemployment rate for all males were included in the time-series model.

While the study provides results consistent with earlier findings on the economic factors involved in work decisions, it does not consider or clarify other options available to middle-aged disabled workers.[4] For example, the exclusion of spouses' or dependents' incomes in the model for the probability of beneficiary status precludes examining the importance of other family

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4. In addition, see Robert H. Haveman and Barbara L. Wolfe, Have Disability Transfers Caused the Decline in Older Male Labor Force Participation? A Work-Status Rational Choice Model, Institute for Research on Poverty (University of Wisconsin-Madison, 1981). Haveman and Wolfe note that the disability indicators used in the Leonard study give no indication of the impairment or the degree of functional limitation, that the proxy for expected labor income is weak, and that other estimation problems exist in the analysis. They found the quantitative impact of expected disability income on LFPR to be statistically significant but smaller than Leonard's result.

income in decisions to remain in the labor force. Also, it is possible that the availability of additional benefits from other public programs could affect labor force dropout, but this was also not considered in the analysis.

APPENDIX D. SOURCES OF INCOME AND DISTRIBUTIONS OF DISABLED BENEFICIARIES

The tables presented in this appendix provide additional information about the economic and demographic characteristics of disabled persons, particularly those receiving cash benefits. Tables D-1 through D-4 are based on the Social Security Administration's 1978 Disability Survey data. Table D-5 contains data derived from the 1977 Health Interview Survey, conducted annually by the National Center for Health Statistics.

TABLE D-1. PERCENTACE DISTRIBUTION OF DISABLED AND NONDISABLED PERSONS AND DISTRIBUTION OF FAMILY INCOME BY INCOME SOURCE, 1977[a]

Disability Category	Total	Percent in Public Income Maintenance Category[b]	
		Receiving (Share)[c]	Not Receiving (Share)[c]
All Disabled Persons[d]	100	100 (33)[e]	100 (0)[e]
Own earnings	54	41 (20)	70 (39)
Other family earnings	59	49 (37)	73 (53)
Asset income	41	35 (4)	49 (4)
Private income sources	24	25 (6)	23 (4)
Nondisabled Persons	100	100 (16)[e]	100 (0)[e]
Own earnings	80	77 (35)	81 (47)
Other family earnings	68	65 (42)	69 (48)
Asset income	49	43 (3)	51 (4)
Private income sources	21	22 (4)	20 (1)

SOURCE: Social Security Administration, Work Disability in the United States, A Chartbook (1980), and CBO calculations.

a. Sources of income in 1977 were reported by respondents to the 1978 Disability Survey. The respondents represented 127.1 million noninstitutionalized Americans aged 18-64.

b. Public Income Maintenance refers to all cash transfers from public sources received by the family during 1977 and includes disability and retirement benefits.

(continued)

TABLE D-1. (continued)

c. Values in parentheses represent the share of total family income derived from a particular source.

d. Disability is self-reported, and disabled persons were those reporting a limitation in the kind or amount of work (or housework) resulting from a chronic health condition or impairment lasting three or more months.

e. Values in parentheses for all disabled or all nondisabled groups represent share of family income derived from public income maintenance.

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TABLE D-2. REPORTED SOURCES OF DISABILITY INCOME RECEIVED BY FAMILIES OF DISABLED PERSONS[a]

Disability Income Source	Receiving from Source: Number (millions)	Receiving from Source: Percent	Average Monthly Benefit, 1977 (dollars)
Any Source	5.67	100	301
Social Security	2.88	50.8	326
Supplemental Security Income	0.98	17.3	164
Veterans' Benefits[b]	1.33	23.5	214
Workers' Compensation[c]	0.35	6.3	313
Public Welfare/AFDC	0.26	4.6	148
Civil Service Disability	0.18	3.1	491
Other Disability[d]	0.19	3.4	320
Disability Pension[e]	0.98	17.4	26

SOURCE: Social Security Administration, special tabulations for the CBO.

a. Reported receipt of disability income in 1977 is recorded in the table only when the benefits were received because of the respondent's own disability, except in the case of employer or union pensions described in e. below.

b. Veterans' benefits include veterans' service-connected compensation and nonservice-connected pension payments, as well as education and training assistance payments.

c. Federal and state workers' compensation payments are combined in the 1978 Disability Survey.

(continued)

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TABLE D-2. (continued)

d. Other disability benefit sources include railroad retirement, unemployment compensation, and any other benefit received because of the respondent's disability.

e. Employer or union pensions received by families may be received for a disability other than the respondent's and may double the counts in d. above. Also, by eliminating certain outliers in the data, the average monthly benefit becomes $278 for 673,000 pensioners.

TABLE D-3. PERCENTAGE DISTRIBUTION OF RECIPIENTS OF BENEFITS FROM MORE THAN ONE PROGRAM BY PROGRAM SOURCES[a]

Program Source	Other Program Sources[b]				
	Social Security	SSI	Veterans' Programs	Workers' Compensation	Two or More
Social Security	70.0	8.7	14.5	1.6	2.2
SSI	25.6	66.1	--[c]	--[c]	3.9
Veterans' Programs	31.3	--[c]	59.3	--[c]	2.5
Workers' Compensation	12.6	--[c]	--[c]	77.4	--[c]

SOURCE: CBO tabulations from the 1978 Disability Survey data.

a. Only public program benefits reported received in 1977 based on a respondent's own disability are included in this table; all respondents claimed to have had work-limiting disabilities prior to 1977.

b. When the program source represented by the column is the same as the program source represented by the row, percentages are the proportion of recipients (of the row source) with only that program benefit source. Row percentages may not sum to 100 since some program sources are not listed.

c. Numbers of recipients with combined benefits in this category are based on a sample of survey respondents too small for reliable estimates.

TABLE D-4. PERCENTAGE DISTRIBUTION OF REPLACEMENT RATES FOR SEVERELY DISABLED MALE BENEFICIARIES BY BENEFIT AND PREDISABILITY EARNINGS CATEGORIES[a]

Category	Replacement Rates[b]			
	.01-.34	.35-.60	.61-1.0	Greater than 1.0
Benefit Sources				
Single program	41.6	46.2	7.4	4.8
More than one program	23.3	30.6	28.2	17.9
Predisability Earnings[c]				
Less than $6,191	d	44.6	18.6	36.8
$6,191 to 12,382	25.6	53.3	14.8	6.1
More than $12,382	58.5	30.6	11.0	d
1977 Benefits				
Less than $2,400	89.6	10.4	d	d
$2,400 to 4,200	43.6	44.1	12.3	d
More than $4,200	18.8	48.5	19.8	12.8

SOURCE: CBO tabulations derived from the 1978 Disability Survey data.

a. Severely disabled persons were identified in the survey as those who reported being unable to work or unable to work regularly because of a chronic health condition. Beneficiaries are recipients of public disability payments based on their own disabilities. Respondents summarized in this table were reported disabled between 1972 and 1976 and receiving benefits in 1977 and 1978.

(continued)

TABLE D-4. (continued)

b. For respondents reporting earnings before disability as well as benefit amounts, the replacement rate is the ratio of family benefits received in 1977 to annual earnings, wage-indexed to 1977, before work-limiting disability.

c. Predisability earnings were derived from survey responses of usual weekly earnings before work-limiting disability and then wage-indexed by average earnings to reflect 1977 wages. The poverty line for a nonfarm family of four persons in 1977 was $6,191.

d. For statistical significance, the proportion in this category has been combined with the adjacent category in the same row.

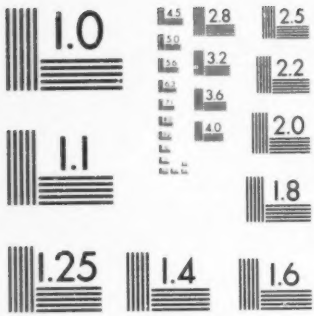
TABLE D-5. DISABILITY INCIDENCE RATES BY AGE FOR THE WORKING-AGE POPULATION in 1977[a]

Age Distribution	Unable to Carry on Major Activity	Limited in Major Activity	Limited, but Not in Major Activity	Total Population
		Number (thousands)		
Total (17-64)	3,711.4	8,862.3	4,413.4	129,977.6
17-24	173.6	745.3	813.0	31,340.4
25-34	335.7	1,335.5	911.7	32,171.8
35-44	493.5	1,440.5	735.6	23,107.9
45-54	914.1	2,239.6	996.2	23,191.2
55-64	1,794.5	3,101.4	956.9	20,166.3
		Percent within Age Groups		
Total (17-64)	2.9	6.8	3.4	100.0
17-24	0.6	2.4	2.6	100.0
25-34	1.0	4.2	2.8	100.0
35-44	2.1	6.2	3.2	100.0
45-54	3.9	9.7	4.3	100.0
55-64	8.9	15.4	4.7	100.0

SOURCE: Unpublished data from the National Health Interview Survey, National Center for Health Statistics.

a. Data are based on household interviews of the civilian, noninstitutionalized population.

b. Disability categories are responses to survey questions and reflect self-perceived limitations in work (or housework) activities because of health conditions lasting three months or longer.



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770 BASKET ROAD
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(716) 265-1600

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